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## The 'futures' debate in the United Nations

*Philippe de Seynes\**

In recent years the future of mankind has become the object of intense and lively controversy which has led to the construction of a number of 'scenarios of the unacceptable' and the proposition of various strategies for avoiding them. Of all the reports produced, *Limits to Growth* has had the widest circulation, notably contributing to the consolidation of the 'futures movement' by its dramatic emphasis on the perils threatening the 'carrying capacity of the planet'. But the United Nations too has had different scenarios and strategies of its own, which it has put forward in such resolutions as those on the International Development Strategy and the New International Economic Order, directed towards the creation of a better society.

Necessary though it is, the attempt to link up these various approaches has been hindered by the lack of an integrative theory to fill the gap left by the erosion of the major paradigms—the theory of general competitive equilibrium and the marxist view—which had been used for many decades to guide national development processes and international relations. The author maintains that a new scheme of global rationality could be constructed only on the basis of a 'voluntarist' approach reconciling the objectives that stem from moral and political values with the realism of empirical analysis and the necessity of an international consensus.

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## Introduction

The 1970s may be remembered as the time when the 'Future' invaded the public debate and began to find its place in the cogitations of the technostuctures. Think tanks and specialized periodicals dedicated to thinking about the future, as well as long-term model-building and other similar products of the age of the computer, can now be said to be part of our institutional system. The impact and the real meaning of this 'Futures Movement' are not as yet very clear. It is a proteiform phenomenon, often highly emotional, responding to strong and deep impulses as well as to rapidly changing fashions. But certain recognizable characteristics and trends are emerging, and may help in assessing, provisionally at least, a cultural force which does not appear to be a passing fad, but rather shows signs of spreading, and of assuming an encyclopedic dimension.

### *1. The scope and nature of the debate*

Thinking about the Future is closely related to a new sense of 'globality' and world interdependence. These notions, whatever their emotional appeal and visionary message, are as yet far from heralding a 'manifest destiny' or delineating a clear path. Rather they must be seen as ambivalent and often divisive. The assertion of national identity is, for two-thirds of the world's peoples, experienced as the driving and mobilizing force in the difficult task of social and political integration. And whereas in the older nations nationalism may at times be seen as a crispatation, a retarding factor in the progress toward a higher level of consciousness, it is also an expression of the problems increasingly encountered in the management of the

social order, even in the smaller units of organized community life. Whether it is regarded as a promise, a challenge, or a nuisance, world interdependence cannot be interpreted in a static context. It is an aspect of the process of transformation. As such it is and will continue to be either encouraged or resisted. Its course is not at this stage ordained by a unifying aspiration, but determined by the interplay of contrasting attitudes and often conflicting interests. The 'Futures Movement' would lose much of its relevance to the study of international relations and the promotion of a New World Order, if it failed to recognize at the outset a context of deep-seated tensions between the requirements of nationhood and the compelling vision of 'One World'.

This reminder of the obvious is necessary because the present 'Futures Movement' seems to have acquired its remarkable momentum from a very different dialectical approach to the 'problematique of mankind'. Although the sociological analysis of its origin and evolution remains to be made, there can be little doubt that it would not have emerged so forcefully, nor spread so rapidly within the dominant culture, were it not for the projected threats to the destiny of the human species. Scholars and officials had for some time been alert to the quickening pace of change and the novel characteristics of its manifestations. They were, however, mostly confident in the prevailing model of society and its adaptability to new circumstances, and in any case too absorbed in the complexities of controlling the short-term cycle to indulge more than episodically in interrogations about the longer term. Wherever agencies for central planning existed, they occasionally lengthened their time horizon, but

usually not beyond a span of 15 to 20 years, and without seriously questioning the basic premises on which current trends had evolved.

Individuals and private organizations, however, not hamstrung by the same constraints or prejudices, were bolder. While some hypothesized the almost uninhibited extension of current trends—judged to be largely beneficial—others began to highlight some of the more gloomy aspects of the human predicament. They focussed, in particular, on the 'integrity of the environment', a notion somewhat new to western civilizations, presented at times as a constraint, too long disregarded, on development, but often also, and more ambitiously, as a concept providing a comprehensive framework within which previous findings of the social and economic disciplines would have to be re-examined and reformulated. The 'ecological' school of thought burgeoned in the early sixties. Backed by a body of serious academic work, it warned of a global threat to the 'carrying capacity of the planet'. Over and above its impact in stimulating anti-pollution measures, it served to focalize and epitomize the widespread malaise, the sense of alienation which gripped the dominant culture in the last years of the decade, paradoxically coming into the open towards the end of the most extraordinary quarter-century of expansion, innovation and confidence which history has recorded. Suddenly some of the singularities of that period, the price paid in terms of injustices, unbalanced development, wastage and vulgarity of consumption habits, seemed to loom larger than the unprecedented successes.

It was this loss of confidence, these disbeliefs and anxieties, rather than the optimistic extrapolations produced by

such well-established centres of long-term studies as the Hudson Institute, that captured public imagination, nourished the incipient 'Futures Movement' and gave it its original bias in the direction of the ecological school.

The Club of Rome, a private body of concerned citizens, had the flair to recognize this mood, and to produce in 1973 a 'scenario of the unacceptable' which had an extraordinary impact: an impact which, on the eve of the 500th anniversary of Copernicus' birth, could be viewed as setting in motion—at least within the dominant culture—a revolution in mental processes comparable to that historically associated with the work of the Polish astronomer.

*Limits to Growth*<sup>1</sup> was a worldwide event. Its message immediately took root in the well-prepared ground of a number of constituencies, in addition to the ecological movement. There is always an ambiguity, a subtle interplay, in any thinking about the 'Future', between the prescription and the prediction. Many were quite ready, on the basis of their value system and in the context of their particular type of alienation, to take the prescription regardless of the validity of the prediction: radicals of different obediences, discovering yet another proof that 'the system cannot work'; exponents of a 'population explosion', frequently interpreted in simple mechanistic terms; nostalgics of nature and the frugal life; moralists rejecting the 'Faustian pact' of man with knowledge and expecting retribution. These sectarian groups were themselves direct—even if dissident—products of the dominant culture in the industrial world.

<sup>1</sup> Dennis L. and Donella H. Meadows, *Limits to Growth*, Report to the Club of Rome, M.I.T., Cambridge, Mass., 1972.

But the impact of *Limits to Growth* did not remain confined to them. It has widened, deepened and endured, despite the increasing controversy and critical analysis surrounding most of its findings. The scholarly critique of the methodology has not diminished the relevancy of the questions so dramatically projected.

Two concomitant events seemed to validate, for a while at least, the basic thesis of *Limits to Growth*: droughts of unprecedented proportions covered for several consecutive years vast areas of the world around a large geographic arch, and in the winter of 1973, petroleum-exporting countries launched a new oil price strategy which could be seen as a 'discontinuity' in world economic trends. Both these events could be interpreted without recourse to the concept of 'finiteness': one was linked to climatic vagaries as yet ill-explained, while the other expressed a broad political design made possible by a newly-perceived market power. The somewhat hasty generalizations that related them to the 'carrying capacity of the planet' did at least testify to the degree of influence achieved over a short period by a school of thought of which *Limits to Growth* was the most conspicuous product. Statesmen and politicians soon recognized, if not a 'writing on the wall', at least the signal that some part of their conventional wisdom was being effectively challenged.

They were, however, chiefly embarrassed, and, so to say, caught off balance, inasmuch as the message did not clearly exhibit the ideologies of the Left or the Right, but rather seemed to cut across traditional party alignments. It suggested the possibility of a new and imperfectly understood political polarization at a time when ideological

frontiers were often becoming blurred and when positions on a number of problems made official party labels appear somewhat irrelevant. These ambivalent reactions to a new concept are evidenced in numerous public opinion polls. They were interestingly illustrated in 1973, during a public debate between Mr. Marchais, the Head of the French Communist Party, and Mr. Mansholt, at that time President of the Commission of the European Economic Community. The occasion was the referendum campaign in France for the admission of Great Britain to the Community. Mr. Marchais used a memorandum of Mr. Mansholt, largely espousing the thesis of the Club of Rome, as an argument against the further development of European integration. Yet, significantly, other Marxist authors have seen in the prospect of zero growth and a 'steady-state' economy, the opportunity for, indeed the inevitability of, the application of Socialist principles and the advent of centralized planning systems.

The United Nations, albeit the one political forum where discussion of the global predicament could be expected, was slow to come systematically to grips with the intellectual challenge embodied in *Limits to Growth*. Total insulation from it was impossible, particularly as the major elements of the 'problematique' included in the formal model—food, population, environment—were separately under active consideration and high on the agenda of the Organization. But no comprehensive programme was devised to sort out, check and analyse the major assumptions and results, so as to assist governments in defining their own position in a raging controversy. In the absence of any organized debate, the reactions observed

were sporadic, random, intuitive and often angry. Motivations were suspect. Was the spectre of catastrophe raised by élitist groups in rich countries for the purpose of keeping under control the wave of aspirations and expectations which had hardly begun to be met? Although the report acknowledged the difficult circumstances of Third World development, its order of priorities and the arrangement of its various elements seemed wrong. The homogenized world, the uniform distribution of problems, which emerged as a result of the methodology adopted, the lack of attention to conflictual situations, to the rich-poor dialectic which, in the United Nations, was viewed as the principal element of world dynamics—all this seemed somewhat unreal, and it should come as no surprise that the fundamental purpose was questioned. Since Malthus was frequently evoked, it was tempting to point out that the English parson had really evolved his famous theory (to which *Limits to Growth* superficially bore some resemblance) as a defence of the interests of the landed aristocracy of his time.

Yet the United Nations too had its 'scenario of the unacceptable', and had done so for quite some time. The Organization is not a newcomer to reflexion on the future. The need for long-term projections was felt as soon as the problem of newly independent developing countries became the focal point of its preoccupations. Quantification and long-term projections were recognized as necessary to the discharge of a collective responsibility. World models were in fact produced as from the 1950s.<sup>2</sup> They were

<sup>2</sup>In the Food and Agriculture Organization, and in the Economic Commission for Latin America under Raúl Prebisch.

of a rather simple kind; however, they also used exponential curves, and at times, particularly with the assumption of a secular and inevitable deterioration of the terms of trade, they had something of the inexorable character which is found in the early Club of Rome approach. They centred on the calculation of two quantities crucial to development: the trade gap and the savings gap, which, when projected over the long term, revealed explosive situations, and the imperative need for concerted corrective action.

The premises here were different from those used as the point of departure for *Limits to Growth*. They were concerned with goals, with aspirations towards a better and more just society, not with the prevention of hypothetical catastrophes. The diagnosis emphasized defects in social organization which could be corrected by political will and concerted international effort – not physical limits threatening the survival of the planet. The models postulated growth as the very foundation of progress, and technology as the principal engine of growth, a primarily benevolent factor whose ambivalent position has not yet been perceived. They also viewed the respect of national sovereignty as imperative and the search for national identity as a positive factor in the task of nation-building and the process of change. They did not subsume the early emergence of a high degree of world central management, the demise of national sovereignties and their dissolution into supranational, problem-solving institutions, which seemed implicit in the management of a 'stationary state'.

The linkage between the growth of poor and rich countries was a cornerstone of the whole edifice of co-operation, and this must be kept in

mind, as in the course of the 'Futures' debate it was often stated that the prescription of no-growth should apply only to the industrial countries which absorb such a disproportionate part of the world's resources and generate most of the pollution allegedly threatening human survival. Most developing countries are extraordinarily dependent on their exports to the industrial countries. It is a characteristic of their economies that they prosper or languish with the fortunes of the world markets, and it is easy to understand from the size of their import coefficients how vulnerable they would be to any drastic and durable reduction in the purchasing power of their rich partners. This would spell disasters far more readily visualized than the 'overshoot and collapse' processes described in *Limits to Growth*. In fact, the new vision of 'finiteness' does not easily fit into the conceptual framework for international relations as it has emerged from twenty-five years of United Nations deliberations, particularly as the implications of zero growth or the feasibility of alternative forms of international intercourse have not as yet been thoroughly explored and convincingly presented.

The *growth relationship* may not be the most desirable arrangement for development co-operation and world harmony – even in the absence of physical limits – but one should not underestimate the difficulties of promoting in the short run alternative models of interdependence. Within the existing growth relationship, the forms of corrective action agreed upon as necessary could remain comparatively minimal. They were the least disturbing to existing patterns and structures. They mainly centred on capital transfers – a very mild form of voluntary taxation levied on the

industrial nations— and some relief from protectionism in regard to the natural resource exports of poor countries. And yet these relatively light obligations were consistently more honoured in the breach than the observance, thereby causing the 'growth relationship' to play an even greater role in the promotion of progress. These features have endured in the successive attempts at formulating global designs in the United Nations system and throughout the continuing frustrations caused by lack of implementation in despite of conceptual agreement.

They are not, however, immutable. Indeed, current appraisals of the requirements of national consolidation more frequently highlight the priority objective of reducing —when necessary at the expense of growth— the extreme vulnerability of developing economies to the unsettling effects of external forces, resulting from the interplay of power positions on the markets.

Notwithstanding a language deprived of specificity in the interests of political compromise, the *New International Economic Order* is cast in terms suggestive of a more fundamental transformation than has been implicit in previous United Nations models, including the International Development Strategy. The emphasis is clearly on structural changes, on the redeployment of activities towards a substantially different division of labour. Growth relationship, trade policies and organized capital transfers are no longer viewed as sufficient for the desired changes. Some sort of more 'affirmative action' seems implied, linking national objectives and international co-operation in a different relationship.

This new vision, reflecting as it does a global balance of power which had just been significantly altered by the strategy

of the OPEC countries and their support of Third World general objectives, also acknowledges, at least implicitly, some of the problems and constraints highlighted in the Club of Rome approach. The long-term perspective, if not very explicit, is inherent in a document which emphasizes a new geographic distribution of industrial activities; provision of adequate quantities of food and security of food supplies for a rapidly growing world population; avoidance of shortages in circumstances where the maturation of investments in natural resources as well as the lead time for the development of new technologies appears to be lengthening; and the preservation of essential ecological balances in a situation where the rapid industrialization of large parts of the world remains an imperative need. A long-term perspective defined within successive time horizons appears essential to the pursuance of such objectives. It is also important to the process of negotiations through which the concerting of international action would emerge, as areas of mutual advantages or joint gains for all are more likely to be discovered within such a perspective.

Five years and several world models after *Limits to Growth*, the sharp polarity which initially appeared to place in opposition two 'scenarios of the unacceptable' competing for the world's allegiance may be fading. The United Nations scenario, developed consistently over two decades, may not have had the instant dramatic impact of that produced by the first Club of Rome report. Yet it may prove the more durable, based as it is on compelling moral and political imperatives, rather than on controversial ecological hypotheses. It may also offer the more useful framework for the continuation of the debate

on the global predicament, particularly as the frightening time-span of the Meadows 'overshoot and collapse' recedes. Growth as an essential element in the management of social change seems to be making at least a qualified comeback from the assaults made on it by a vocal section of the Western intelligentsia. The interest may now be shifting from 'limits' to alternative models of world order and patterns of national development. Indeed the more recent reports sponsored by the Club of Rome deliberately focus on a New Order, and older ones are increasingly represented as contributions to the creation of a better society, rather than to the prevention of planetary disasters. Concurrently, the notion, ill-documented as it is, of a limited pool of resources finds its way into the rhetoric of the United Nations, either as an additional example of spoliation of Third World interests, or as a promise of progress for producers of raw materials.

## 2. *The lack of an integrative theory*

One should not begrudge the part of eclecticism which may be at the source of such rapid changes of emphasis. They may rather be seen as one aspect of the quandary in which the international community (and for that matter the 'Futures Movement') finds itself currently trapped. In the search for a scheme of *global rationality*, we are severely handicapped by the lack of an integrative theory—or of rival integrative theories—which would be accepted by wide sections of the intelligentsia and the centres of power, and which would explain the more significant aspects of the behaviour of society, provide a minimum capacity to predict, and afford a reliable basis for the formulation of rules and the development of institutions. The erosion, or

disintegration, of the major paradigms which had been used to elucidate as well as guide national development and international relations is an important factor of our present uncertainties.

Firmly rooted in a substratum of values widely shared in the industrial societies, the theory of *general competitive equilibrium* offered a formalized structure for the development of a set of binding rules in the one area of international relations—the international exchange of goods and services—where regularities had once been observed and correlations identified. It had survived the emergence of new patterns of market behaviour, and made a place for oligopolistic practices as special cases—or aberrations—which did not generally destroy the validity of the paradigm. It also found support, and a much-needed new sophistication, in the approach of the 'functionalist' school, which exhibited a very similar value system in its projection of the 'managerial society' and of the more novel aspects of the technological syndrome. It is still invoked in powerful circles, at least as a loose orthodoxy, accommodating an ever-increasing number of deviations, for fear of the vacuum which would be left by its final demise.

The obsolescence of the theory is graphically illustrated in the widening range of practices developed in contravention of the rules derived from it, and, if not fully legitimized, at least regarded with a great deal of tolerance. Barter arrangements between socialist and market-economy countries have for some time been recognized as instruments to expand rather than restrict trade: transactions between petroleum consuming and producing countries in which prices and conditions are kept purposely obscure may be viewed as

assisting a difficult process of adjustment to new conditions; dubious pricing practices in the transfer of goods between various units of a transnational enterprise with a single decision-making centre are condoned on the grounds of the assumed improvement in general welfare brought about by international production; the proliferation of preferential agreements is justified in geopolitical terms, as a new centre of economic power emerges around the European Economic Community.

But perhaps even more important than these empirical transgressions is the loss of confidence in earlier values with which the paradigm was identified. This is particularly significant in developing countries. In the face of compelling demands for fundamental change, the value of trade as an instrument of improved domestic welfare, fuller employment and better income distribution is increasingly questioned. Even if it may have induced growth in one phase, it is subsequently found wanting, not only when adverse terms of trade persist over a long period, but even more surely when new policy objectives become paramount. Nor is the distrust of an open world economy confined to Third World idiosyncracies. Europeans have –repeatedly during the recent recession– blamed the open international system for the frustration of their efforts to control the business cycle. Professor Harry Johnson once suggested that certain ‘political equations’ are missing in the classical attitude toward international trade. In the present state of our knowledge about social mechanisms, they are not easy to introduce in a set of predictive hypotheses.

Political factors were always present in the Marxist paradigm. For this reason its diagnosis often appeared more relevant to situations of enduring inequali-

ties, more aware of latent conflicts and more attuned to the understanding of a process of transformation. However, this other major paradigm is also labouring today in the pangs of *aggiornamento*, notably in the efforts of a fraction of the ‘structuralist’ school. It is not only that the evolution of societies as well as the more recent findings of sociology reveal a far more diversified social context, and a more complex set of causations, than those originally identified. More important, regardless of its value as an analytical tool, the paradigm when used as a guide to action is in danger of losing one of its inherent elements: the sense of historical sequences, which dictated that the right time and the appropriate set of circumstances must be discovered before radical action is undertaken. This was among the most lucid perceptions of Karl Marx. In political life, however, action is almost always a matter of urgency. It cannot be evaded, especially by the promoters of drastic transformations, irrespective of whether the time has come, or may have passed (for instance, if too many groups are linked to the political *status quo* through their present interests or their expectations). The outcome may then be a tragic backlash as the price paid for the misjudgement.

### 3. The ‘voluntarist’ approach

The major paradigms may have retained, and perhaps, in the case of Marxism, increased their following as an expression of general aspirations, or beliefs, but they have largely lost their capacity to explain, predict and guide.

The resulting conceptual vacuum has not made it easier to take charge of those new assumptions of the ecological school which were integrated in neither

of the major paradigms. In such circumstances a good deal of philosophical free-wheeling takes place: witness for instance the advocacy of 'triage', a notion resurrected from the most gruesome experiences of World War II, as a logical strategy for dealing with impending food shortages; or the invocation of 'neo-mercantilism' as a plausible principle for the management of the international economy.

Such positions may be for the time being dismissed as marginal. But the public debate on the 'Future' encounters, on more serious grounds, real difficulties, which it has not yet efficiently tackled. One of them is the role which 'value systems' come to play as a central parameter in the search for solutions to such problems as the possible exhaustion of resources or the threat of asphyxiation through pollution. A drastic change in ethical values is often assumed to be not only more desirable, but more easily achieved than technological innovations or adaptations. Yet not much attention is given to the social determinants of value systems, their built-in inertia, and the conditions under which they evolve. It is disturbing when new *Weltanschauungen*, accompanied by the inevitable 'manifestos', appear to spring up at the drop of a computer print-out. Nevertheless, this too is a manifestation of a widespread anxiety and revolt, and they are not unrelated to the ontological need for a reliable paradigm. In the absence of an integrative theory, there is naturally a temptation to advocate strategies developed mainly, if not exclusively, from moral imperatives. They are bound to be fragile. The immorality of present arrangements (if that is the word) of international intercourse is patent enough when it can be said that even the worst extravagance and waste in

the rich countries have some beneficial effect on the situation of the poor, or perhaps more accurately, that the sudden interruption of these habits would play havoc with many situations which one would want to protect. But the correction of these anomalies requires more than the intuitive espousal of new rules of behaviour. One suspects that an ethic of frugality and conservation would find its rightful place in a scheme of global rationality. But it is in the nature of complex social systems that they are 'counter-intuitive' (to use the phrase of Jay W. Forrester) until the implications of particular courses of action have been fully elucidated. Frugality and conservation may have widespread unintended effects on employment, investment, income and wealth distribution.

Given the present stage of our understanding of economic and social behaviour, a formalized integrative theory of national development and international relations is not likely to emerge very soon. It might even be imprudent to attempt it before the work of empirical investigation has progressed farther. This would suggest that for the time being the search for a scheme of global rationality can proceed only along a path which French authors describe as 'voluntarist', without the control and guidance which come from empirically tested hypotheses. In international relations, the broad consensus which must at all times be sought may be an insurance against expediency and arbitrary judgement, or the worship of false gods.

Indeed, global designs and plans of action developed in the United Nations are a first approximation to what can be achieved through a 'voluntarist' approach, combining moral and political imperatives with a good measure of empirical econo-

mic analysis. They also exemplify the limits of the approach. It is very congenial to the broad definition of ends, but often leaves us somewhat at a loss in regard to the means. Nor is it always successful in clarifying the conditions of consistency between different objectives specified. The existence of *multiple objectives*, even in the most primitive societies, is a characteristic of the contemporary world. The difficulties deriving from this factor cannot be eluded in the further development of global designs. Growth will never again, either in the developing or in the industrial world, stand as the sole *specified* objective, on the assumption that its achievement would automatically produce dividends in the areas of social welfare, equity or the quality of life. A serious effort must now be made to clarify trade-offs, options and inconsistencies. Bridging the welfare gap *within nations* will not, by itself, help in reducing the income gap *between nations*. Action oriented toward either of these goals does not necessarily coincide with a strategy of meeting *minimum needs* in the shortest possible span of time. Forecasting slower growth in the rich countries as a result of the natural maturation of their economies, or of policies required to control inflation or protect the environment, is one thing. But adopting deliberate policies of deceleration, as sometimes recommended, for the purpose of reducing international inequalities, is another matter, and may very well impair the fulfilment of the more immediate objectives of developing countries. Stabilizing, or valorizing, primary commodity prices may have worldwide distributional effects that run counter to one or more of the general goals. Specific targets, supposedly established as steps towards the attainment

of the general goals in question—for instance, industrialization and food sufficiency targets—may find themselves in conflict with other investment policies pursued in the name of the same broad objectives.

Conflicts between objectives may be more manageable, and acceptable trade-offs or reconciliations more readily discovered, if successive time periods are explored. But other difficulties may arise when the political implications inherent in certain economic models are clearly specified and viewed in a perspective of long-term change. Institutional arrangements and forms of collective discipline, which are accepted under the pressure of necessity, may appear oppressive once the worst features of mass poverty have been eradicated. And yet a political apparatus may have been established which will tend to be self-perpetuating, even though it will become obsolete or undesirable once a new phase in the development process brings with it a new and different set of goals and aspirations.

In trying to sort out the interrelationships of goals and objectives we should also seek to learn more about the true aspirations of societies of different cultures. Too often statements on goals and aspirations express what a French economist<sup>3</sup> aptly calls 'vicarious desires', or the imputation to others of the author's own preferences. Moreover, the techniques of enquiry on this delicate subject often fail to pinpoint the dilemmas inevitably confronting civilizations in process of transformation, or of adequately clarifying the foreseeable consequences of different options, including their negative aspects and side-effects. Only when accurately-described alternatives are presented can goals and aspira-

<sup>3</sup> Serge Christophe Kolm.

tions be expressed in terms which may have an operational meaning.

The risks and pitfalls of 'voluntarism' call for a systematic effort to acquire a better empirical knowledge of the relations between political, social, and to an increasing extent, ecological factors. Even while we have relegated Adam Smith's 'Invisible Hand' to a more modest position in our intellectual universe, we suspect that there are in all social systems mechanisms of 'resilience', instrumental in adapting to fast-changing circumstances, absorbing shocks and discontinuities, and managing crises. Because we have a simplistic view of economic behaviour, we tend to drift toward self-defeating solutions of bureaucratic centralism where the encouragement of popular and local initiatives would be appropriate.

The success of the 'voluntarist' approach, as well as the progress of an 'integrative theory', may hinge upon the improvement of knowledge in regard to individual and group motivations. Thus a broadening of the economic discipline is required, to extend it beyond the successive refinements of the models which have dominated the last hundred years, perhaps even beyond what used to be called 'political economy', which is already enjoying a kind of revival. It is significant that some economists are exploring 'games theory' to analyse examples of coalition, and other types of relations between different actors in the market, and that others are invading—with considerable gusto—the field of psychosociology.

From time to time powerful and illuminating watchwords may assist our understanding of the forces at work. Not only are they symbols of deep-seated aspirations, but they may also suggest a methodology for the investigation of the

means to fulfil their promise. *Self-reliance* today plays a pivotal role. It may cover a wide spectrum of scenarios of national development and their articulation with alternative views of world order. It may apply to models of accelerated industrialization taking maximum advantage of international trade and financial flows within an open and widening world market, or to a socialist pattern of organization, implying a significant degree of insulation from the external world and deliberate policies of 'de-linking' South from North. But it also suggests the will, common to all developing countries, to enhance and consolidate nationhood, to mitigate the impact of external circumstances and to develop the capacity and the instruments for autonomous decision-making. Because of this strong common denominator as well as because of the diversity of its application, self-reliance (with its 'extension' into Third World collective self-reliance) must be seen as a central concept in the 'voluntarist' approach to the restructuring of the world economy and the redefinition of the rules of the game. It cannot be locked into a purely economic interpretation. Long-term plans for restructuring international economic relations and redeploying industrial and other activities should take into account the political imperatives of self-reliance in Third World countries.

#### 4. *Improving the institutional framework*

In a framework of theoretical uncertainties and acknowledged deviations from rules, one would hope for international institutions of a *quasi-judiciary* nature capable of investigating, interpreting and adjudicating. These may appear at some stage. In the meantime the United Nations institutional system,

which the international community has evolved over a period of 30 years, should be appreciated at its full value. The opportunities offered by its ubiquitous and continuous debate to sort out complex issues within a political context; its machinery for information and analysis; the redeeming influence of its 'adversary procedures and processes' (too often condemned as sterile confrontational tactics) in the search for a consensus; —all these are significant assets in the advancement of a New International Economic Order.

New analytical tools have become available which are useful and instrumental in the furtherance of our cognitive process, and in the improvement of planning. Computerized models have captured a lion's share of the attention of the 'Futures Movement'. They have a unique educational value. Their capacity to assemble and organize a formidable volume of information enables them to offer a useful *representation* of the interdependence of problems and of situations in complex systems, at least to the extent that measurable factors are involved. And the exploration of alternative 'scenarios' opens the door to the introduction of a variety of hypotheses, some of which may be adequately related to political action. Their ambitious complexity, which is sometimes viewed as the touchstone of their validity, may also be precisely their weakness, as the manipulation of so many parameters would seem to require a more solid data base than is at present available. In a way global model-making seems to have become indispensable before becoming entirely reliable, and its use for forecasting purposes or policy assessments, although not negligible, is still limited. Authors are generally very straightforward in recognizing this, but the media are less

cautious and often project a misleading picture.

Because we are unable at this stage to construct a paradigm of global transformation, we should not give up the more limited objective of working out more *specific theoretical frameworks*, much needed to handle correctly the large quantities of empirical data which are already available or could be collected. This would assist decision-making in areas where any action must be pondered in a perspective of some duration: resources scarcities and substitutabilities, technology changes and technological choices, shifting patterns of consumption and their worldwide consequences. Such theoretical frameworks would also serve as building-blocks for the wider conceptualization.

It is particularly intriguing that as the debate on the 'Future' shifts from 'catastrophe' to 'a new society' —to use the words of the Bariloche report— the notion of physical limits seems to have been somewhat lost sight of, or diluted into the ethical and still ambiguous category of frugality. Yet the constraints dramatically presented in *Limits to Growth* should be taken very seriously. Both in the field of resources investment and in that of environment protection, they seem to be already influencing, marginally at least, public policies and investment decisions. 'Finiteness' is perhaps not a useful organizing principle in discussion on the predicament of mankind; the debate should focus rather on social and political change. But it cannot leave out the ecological factors which have only recently come to light and require thorough investigation.

The constraints are real in terms of cost, time and technologies, and the stakes are high. Most prominently, a smooth transition to a *new energy*

*economy* must be prepared; global or local shortages, even temporary ones, must be avoided, and a better distribution of the sources of energy production must be achieved to lighten the balance-of-payment difficulties of a great many countries and reduce their dependency on a few centres. Some incipient form of global management is called for in this field, at least in the form of systematic monitoring and information which would assist in appraising potential supplies, reserves and resources, and the state of the art in technological development. The true alternatives must be made apparent. They have been obscured for 25 years by an undue concentration of research and development on the nuclear option, on the basis of assumptions relative to costs and safety which are now being increasingly challenged. The international community and many national entities are visibly striving to limit the proliferation of nuclear facilities, even if a large part of the programmes which are now at different stages of planning and implementation cannot be cancelled. Yet present institutional arrangements governing research and development appear inadequate for the management of a difficult transition to new energy sources. During a Conference<sup>4</sup> held in the summer of 1976, on the Future Supply of Nature-Made Petroleum and Gas, these inadequacies were amply demonstrated. It became clear that engineers and scientists working in the disciplines related to

some 20 new types of petroleum and gas resources had hardly any contact with one another, even within the confines of their own countries, let alone internationally. Legislation to prevent collusion, and the desire to protect the confidentiality of research efforts, condition the behaviour of public as well as private entities. This inevitably results in a costly multiplication of large expenditures (at a time when adequate funds for research and development are not assured), and undue delays in the perfection of new technologies and processes. A change in the existing rules or practices in the direction of a different mix of co-operation and competition seems required, as the situation, even to the true believers in the 'technology fix', is not altogether reassuring. Research and development should also assume a truly international dimension, as the countries which are best equipped with technical and financial means to develop useful technologies and new types of resources are not necessarily those which are in the most urgent need of them.

Although anxieties about resources depletion have recently occupied the front of the stage, concern about the environment was probably more instrumental in the early development of the idea of 'limits'. After the awakening of the last ten years, and the impulse of the 1972 Stockholm Conference on Environment, understanding of the interactions between environment and development has not proceeded at such a pace as to enable a methodology to emerge that could offer policy-makers useful guidance. The consensus in this difficult area has not widened as might have been hoped. In most cases it still emerges as the outcome of a contest between different pressure groups. It is true that, as a result of numerous studies and of the

<sup>4</sup> The Conference on The Future Supply of Nature-Made Petroleum and Gas, jointly organized by the United Nations Institute for Training and Research (UNITAR) and the International Institute for Applied Systems Analysis (IIASA), was held in Laxenburg (Austria), 5-16 July 1976.

experience acquired in the promotion of practical measures and policies, a certain confidence has been gained that the environment factor can be brought within manageable dimensions and need not upset the general equilibrium of development policies embodied in United Nations legislation, notwithstanding the drastic revisions and policy changes required in some areas. Such confidence may be justified in respect of the vast field where environment problems revolve around choices and trade-offs between various types of amenities and disamenities, and where the problem is one of evolving a more rational decision-making process.

Yet it is in the field of environment that some of the major and most intractable uncertainties, entailing grave risks, would continue to plague decision-makers: climate modification, genetic engineering, the nuclear syndrome. The test of statesmanship is here particularly exacting, as uncertainties are not going to yield to a Socratic dialogue, and international agreements would have to be sought on *policies of restraint* (the 'prudential' approach) which would not be based on the rationality imparted by scientific knowledge.

This in turn might be more easily accepted, and the anxieties pertaining to

such situations might be alleviated, if the need to subject the development of new technology to some form of social control were to begin to be recognized.

In the dramatic unfolding of the controversy over 'ultimate limits', technology has figured at times as the Deus, at times as the Diabolus ex machina. But it is within the power of mature societies to subordinate it to fundamental social requirements. An example was recently set by the scientific community in the field of genetic engineering, when, for the first time, a decision was made that experimentation should be subject to a measure of self-policing. Further experience with technology forecasting and technology assessment, which have hardly as yet taken root in governmental and international institutions, will almost inevitably lead to similar approaches and to the recognition that some restrictions may have to be placed on the right of man to expand the frontiers of knowledge. Such a notion is today still new and somewhat forbidding. Tomorrow it could lead to the guidance of research and development toward a different hierarchy of objectives, one based on internationally and democratically agreed criteria of human needs.

## Reflections on the conceptual framework of Central American economic integration

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The report of the tenth session of the Central American Economic Co-operation Committee maintains that the integration process admits, and today requires, a multiplicity of approaches in which past achievements and the basic and permanent orientations that are deep-rooted in the best integrationist tradition are appropriately combined with innovative action. In the present article an attempt is made to clarify the possible scope and significance of this assertion.

An essay on this subject is a somewhat hazardous undertaking, for numerous have been the studies published in recent years on various questions relating to the economic integration of Central America, comparatively little has been written on the conceptual frame of reference which has guided this process in the past and might continue to do so in the future.

The article begins with a brief summary of the most outstanding aspects of integration theory—both in the economic field and in that of political science—, and goes on to recall the history of the Central American economic integration process up to the present time. Lastly, general guidelines are suggested for an approach that might help to resolve the many problems by which this process is confronted today.

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## 1.

### The concept of economic integration and its different manifestations

#### (a) *The concept of economic integration*

Although so much has been written on the subject of integration, interpretations of what it implies are far from uniform. For instance, the idea has differed in different countries and has even changed within the same country from one period of time to another. For some authors, an economic integration process consists in the total abolition of customs barriers between different national economic units (the partial elimination of such barriers would be only economic 'co-operation').<sup>1</sup> For others, the abolition of inter-country barriers should be accompanied by the elimination of every type of obstacle to the mobility of factors—including social mobility—<sup>2</sup> at the national level. Yet others concentrate on the institutional aspects and consider that integration "means the process of transferring exclusive expectations of benefits from the nation-state to some larger entity".<sup>3</sup> Lastly, economic integration is envisaged as involving the unification of several economies in a single whole, with total mobility of factors within this expanded

<sup>1</sup>See Bela Balassa, "Towards a Theory of Economic Integration", *Kyklos*, N° 1, 1961, pp. 1-5; and *The Theory of Economic Integration*, Homewood, Illinois, Richard D. Irwin, Inc., 1961, pp. 1-2.

<sup>2</sup>See Gunnar Myrdal, *An International Economy*, New York, Harper, 1957, p. 11.

<sup>3</sup>See Ernst B. Haas and Philippe C. Schmitter, "Economic and Differential Patterns of Political Integration: Projection about Unity in Latin America", *International Political Communities: An Anthology*, New York, Anchor Books, 1966, p. 265.

economy, and total unification of policies under the direction of centralized institutions.<sup>4</sup>

In some instances the impulse to integration may derive from important political causes, as was the case, for example, with the European Economic Community during the period of reconstruction after the Second World War. In others, the motivation may be more of an economic nature.

Of the concept of economic integration, therefore, no single definition exists. For the purpose of the present note, any set of joint activities, promoted by common institutions, which raises the level of economic interdependence among a group of countries may be considered an integrating process. The degree of intensity of this process will be as great or as limited as the member countries may desire.

#### (b) *The various integration styles*

The Economic Commission for Latin America (CEPAL) has analysed the various development styles,<sup>5</sup> but the subject of integration styles has not been exhaustively explored. They may, of course, embrace many possibilities with regard to the objectives pursued by the countries members of an integration movement. For analytical purposes, however, and at the risk of lapsing into a few generalizations, a distinction can be drawn between two major approaches, which in their turn embody three integration 'styles'. The first approach—integration at the 'micro' level, or by

projects— aims at promoting interdependence through specific activities which involve an intrinsic benefit for the participating countries, but which are not necessarily conceived as stages leading to the emergence of a larger unit. The second—'macro' or globalist integration— seeks to cover all aspects of development and to make them the object of common treatment, although such treatment may be introduced progressively as part of a gradual process. Within this second approach two variants or styles can be discerned as means of attaining the same objective: one of a liberal character, and the other entailing a higher degree of State participation. The three styles identified will be termed here: (i) *the project approach*; (ii) *market integration*; and (iii) *integrated development*.

In any integration process traces of the three styles can be discovered, although one of them will always be predominant. At all events, it should be pointed out that they are not necessarily mutually exclusive.

(i) *The project approach*. This is based on the execution of specific projects or on concrete activities which could not be carried out by a single country in equally efficient or appropriate conditions. The classic example is afforded by manufacturing industries for whose optimum operation the scale of production required is larger than could be absorbed by the domestic market of any given country. Sometimes the execution of a joint project calls for the adoption of complementary measures—in the case of industry cited above, free trade in the articles to be manufactured— but the project approach is characterized by the intrinsic benefits for the participating countries implicit in each of the activities submitted to common treatment. These benefits can be

<sup>4</sup> See Jan Tinbergen, *International Economic Integration*, Amsterdam, Elsevier Publishing Co., 1965, p. 67.

<sup>5</sup> See *CEPAL Review*, No 1, First Semester 1976, United Nations publication, Sales No: E.76.II.G.2.

obtained without the necessity of agreeing upon across-the-board rules of the game (as, for example, a free-trade régime for *all* manufactured products).

The foregoing approach contrasts with that of a global character, in the sense that the former is envisaged as upward integration, implying the implementation of joint action to solve common problems, basically through the execution of projects and programmes, whereas the latter places its main emphasis on a conception of gradual integration from the top downwards, i.e., seeking rather to reach agreements of a global type than to promote specific activities within the framework of these global agreements.<sup>6</sup>

To put it more precisely, in integration by projects the immediate objectives—pertaining to the execution of some specific activity—may be fitted into the framework of a broader strategy aimed at increasing interdependence among the countries. Thus, the difference between the project and the global approaches lies in the fact that the former devotes more attention to the sequences constituting development than to their ultimate outcome (on the basis, moreover, of the assumption that the execution of the joint projects which make for greater interdependence will influence or even transform the final objective). Hence in this approach the indication of a precise goal (for example, the constitution of a perfect customs union) is intentionally avoided, and the emphasis is placed, in the last analysis, on the benefits which can be obtained from each joint activity.

<sup>6</sup> See CEPAL, *Sugerencias para reactivar a corto plazo la integración económica centro-americana* (E/CEPAL/CCE/367/Rev.3), April 1975, pp. 50-51.

Another important characteristic of the project approach is that it is envisaged as a *complement* to the development of each of the countries participating in a common project. In other words, the point of departure is the assumption that this type of integration should neither take the place of national development efforts nor, as far as possible, interfere with them.

Moreover, the project approach makes it possible for the distribution problem inherent in any form of interdependence among countries to be solved with relative efficacy, either through the selection of projects involving no costs for any country, or through the choice of a set of projects ensuring benefits for all. This aspect of the problem is discussed in greater detail at a later stage.

Such a conception of economic integration finds its counterpart in functionalist theory on international organization, which considers that institutions must be created as a function of the needs which are to be jointly satisfied, and that the emphasis must be placed on transactions, not on legal instruments.<sup>7</sup> According to this theory, what is important is to identify areas of co-operation which are of interest to all the participating States and preferably non-controversial. Once they have been identified, the agencies are established that are required for the attainment of the specific objectives fixed.

As the goals to be pursued in common by the countries participating in a process of this nature may be of many kinds, the project approach calls for institutional decentralization. Since by definition these goals are of interest

<sup>7</sup> See, *inter alia*, A.J. Groom and Paul Taylor, *Functionalism: Theory and Practice in International Relations*, London, University of London Press, 1974.

to all, it may be assumed that the participating States will voluntarily adopt the measures required for the execution of each project or joint activity, and that an integration scheme of this type does not necessitate regional institutions with supra-national characteristics. Similarly, integration by projects allows of whatever degree of State intervention the participating countries may deem desirable, although a decisive role will be incumbent on the public sector in negotiations relating to the location of the regional projects selected.

(ii) *The global approach: market integration and integrated development.* The second major approach seeks to promote global integration of the whole production apparatus of the countries adopting it. Although in theory a possibility to be considered is that of 'instantaneous' integration—which would consist in the voluntary or enforced decision of a group of countries to adopt a federal plan immediately—the process is most commonly conceived of as gradual and progressive. Its final objective is the constitution of a larger unit.

This approach of course admits of variants, even as regards the degree of integration desired. In some instances partial and in others total economic unity might be the end pursued. Nevertheless, two clearly-defined 'styles' can be distinguished in this globalist approach, with many characteristics in common and some significant differences.

What we have termed the 'market integration' approach is inspired by the theoretical writings of Viner and other authors on the formation of customs unions, within the broader field of studies relating to the international economy.<sup>8</sup> It is the most usual both among industrialized countries (European Economic Community) and among developing countries.

It consists in expanding the market size of several national units into an economy of regional dimensions for the participants. This integration may take various forms, which are normally regarded as stages in one and the same process.<sup>9</sup> The first step is the definition of a 'free-trade area' in which the member countries eliminate tariff duties on products from the region itself, but maintain their own respective tariffs for products from third countries. The second is the 'customs union', which implies, in addition to free trade in the products of the region, a common tariff *vis-à-vis* the rest of the world.<sup>10</sup> The third is the 'common market', the highest form of economic integration, in

<sup>8</sup> See, *inter alia*, C.A. Cooper and B.F. Massel, "A New Look at Customs Union Theory", *The Economic Journal*, Vol. LXXV, N<sup>o</sup> 300, December, 1965, pp. 742-747; Harry G. Johnson, "An Economic Theory of Protectionism, Tariff Bargaining, and the Formation of Customs Unions", *The Journal of Political Economy*, Vol. LXXIII, N<sup>o</sup> 3, June 1965, pp. 256-283; Melvyn B. Krauss, "Recent Developments in Customs Union Theory: An Interpretative Survey", *Journal of Economic Literature*, Vol. X, N<sup>o</sup> 2, June 1972, pp. 413-434; R. G. Lipsey, "The Theory of Customs Unions: A General Survey", *Economic Journal*, Vol. LXX, N<sup>o</sup> 279, September 1960, pp. 496-513; James E. Meade, *The Theory of Customs Unions*, Amsterdam, North Holland Publishing Co., 1955, and *Problems of Economic Union*, Chicago, University of Chicago Press, 1953; Jacob Viner, *The Customs Union Issue*, New York, The Carnegie Endowment for International Peace, 1950, especially pp. 41-55.

<sup>9</sup> The description which follows is that given by Bela Balassa, *The Theory of Economic Integration*, *op.cit.*, p. 2, with which Tinbergen, *International Economic Integration*, *op.cit.*, p. 21, also concurs. As is shown later, however, not all writers are in agreement with the terminology used.

which restrictions on trade and on movements of capital and labour are suppressed altogether. The 'economic union', lastly, combines all the foregoing with a high degree of harmonization of economic, monetary, fiscal, social and counter-cyclical policies.

Paradoxically enough, market integration has been sponsored both by those interested in liberalizing international trade<sup>11</sup> —as an initial stage in the elimination of tariff barriers between countries— and by those concerned with protecting nascent industries behind a common tariff barrier within an expanded market.<sup>12</sup>

Despite the differences existing between these two criteria —one of which involves a free-trade area with little or no tariff protection, whereas the other calls for a common tariff barrier to protect industrial development— it is

<sup>10</sup> In the writings of Lipsey, Meade and Viner, the term 'customs union' is understood to signify: (1) the elimination of tariff restrictions among the member countries for *all* products, irrespective of their origin; (2) the establishment of a common tariff *vis-à-vis* third countries; and (3) the establishment of machinery for the collection of customs duties on products from the rest of the world, and the subsequent distribution of the said duties among the member countries. See, for example, Viner, *The Customs Union Issue*, *op.cit.*, p. 5.

<sup>11</sup> With some exceptions, including Viner himself, who argued that the formation of customs unions between blocs of countries was bound to lead, in the long run, to a less than optimum allocation of resources at the world level.

<sup>12</sup> CEPAL, *The Latin American Common Market* (E/CN.12/532), United Nations publication, Sales No: 59.II.G.4, especially pp. 1-7. CEPAL did not confine itself, of course, to promoting solely the integration style defined here as 'market integration'

accepted in both cases that, within the free-trade area, market forces will spontaneously lead to an optimum reallocation of factors within the integrated region, with the resultant improvement in the efficiency of the production apparatus. An argument in favour of this integration approach (generally identified with economic liberalism) is to be found in the additional advantages of the more competitive régime engendered by the expanded market.<sup>13</sup>

Where co-ordination of policies is concerned, an initial difference may be noted between the market integration and the integrated development styles. In the first case it is understood that certain economic policies need to be co-ordinated and harmonized subsequently to the full liberalization of goods and factors, precisely in order to obviate distortions in the allocation of resources within the region. In the second, on the other hand, co-ordination of policies becomes a simultaneous —or even a prior— requisite for trade liberalization, since it is a more suitable mechanism for channelling the allocation of factors at the regional level and promoting gradual interdependence among the countries. In this sense, the style we have called 'integrated development' places the emphasis on active measures to promote interdependence— and to prevent, among other problems, unequal inter-country distribution of the benefits deriving from the process —as distinct from the more passive attitude implicit in market integration. But it is frequently argued that this latter approach is not appropriate for integration systems among developing countries, because of the defective

<sup>13</sup> See Tibor Scitovsky, *Economic Theory and Western European Integration*, London, George Allen and Unwin, Ltd., 1958, pp. 1-15.

operation of their market mechanisms and the need to keep their development processes in balance with one another.<sup>14</sup>

A second difference between the two 'globalist' systems derives precisely from the way in which the distribution problem is tackled under the process. It is in the market integration approach that the difficulties in this respect are greatest, because investment oriented by market forces logically tends to be concentrated in the countries that are relatively more developed or have larger markets. In contrast, in the case of integrated development, as has already been pointed out, this problem —of cardinal importance for any integration movement— is handled by allocating investment so as to take into account, among other factors, the need to secure a reasonably equitable inter-country distribution of the benefits attributable to economic integration.

A third difference —although one of nuance— between the two styles described would appear to be the objectives of the process. According to the literature on market integration, the aim pursued is the raising of the level of well-being (with reference in the case of the free-traders to the well-being of the population of the whole world; on the part of the protectionists only to that of the population of the region), although the formation of the customs union often seems to become an objective *per se*. The integrated development style has as its explicit objective the acceleration of the economic and social

<sup>14</sup> See Hiroshi Kitamura, "La teoría económica y la integración económica de las regiones subdesarrolladas", in M. Wionczek *et al.*, *Integración de América Latina, experiencias y perspectivas*, Mexico City, Fondo de Cultura Económica, 1964, pp. 26-49.

development of the countries members of an integration movement, and is oriented towards the optimization of economic policy as a whole.

It would be a mistake to deduce from the foregoing remarks that the integrated development approach —sometimes described as 'dirigist'<sup>15</sup>— can be applied solely in a centrally-directed economic system. Only by comparison with the market integration approach is its higher relative degree of State intervention brought out, and this intervention, moreover, may be substantial or moderate, at the discretion of the States participating in the process.

In the two integration systems described under the head of the globalist approach, the process is conceived as incremental or linear; that is, one milestone is infallibly followed by another on the road towards the construction of a larger unit. As progress is made in the stages envisaged, it is argued, the level and scope of the process increase, because the activities subject to common treatment spill over into new sectors or because they are carried out in greater depth in a specific sector.<sup>16</sup> Thus, to cite only two examples, and in accordance with neofunctionalist theory, for commercial integration to be successful it would necessarily have to spill over into monetary and agricultural integration.

With regard to the institutional framework which normally accompanies

<sup>15</sup> See *The Theory of Economic Integration*, *op.cit.*, pp. 8-11.

<sup>16</sup> See Philippe C. Schmitter, "The Process of Central American Integration: Spill-over or Spill-around?", *Journal of Common Market Studies*, Vol. IX, N° 1, September 1970, pp. 1-48. Lack of spill-over or regression is what is described as 'spill-back', while stagnation is termed 'spill-around'.

the globalist approach, two variants may be noted which are applicable alike to the market integration style and to the integrated development approach. Both start from the assumption that, as the process advances, governments will have to delegate increasing responsibilities to a common institution. In the case of the integrated development style, the transfer of faculties will have to begin at a very early stage in the process, to meet the requirements of co-ordination of policies, whereas in market integration, it may take place in the more advanced phases.

The first variant of the transfer of national powers to regional institutions has its source in federalist theory.<sup>17</sup> This legalist criterion for the construction of larger inter-State communities asserts the need to begin by establishing strong federal institutions and a basic constitution. The existence of overcentralization of powers is not necessarily implied—although neither is it excluded—, because, as is common knowledge, every genuine federation entails a permanent tension between the powers of the federal institutions and those of the member States. In some instances, governments confer only partial faculties on the federal institutions—where a confederation is concerned—and in others the most important are handed over to them.

The second variant—much more closely linked to the economic integration process—finds its inspiration in neofunctionalist theory.<sup>18</sup> According to this an

integration movement starting with joint activities in non-controversial areas may end in the spill-over described above because of the very dynamics of the process. “Members of an integration scheme—agreed on some collective goals for a variety of motives but unequally satisfied with their attainment of these goals—attempt to resolve this dissatisfaction either by resorting to collaboration in another related sector (expanding the *scope* of the mutual commitment) or by intensifying their commitment to the original sector (increasing the *level* of the mutual commitment), or both.”<sup>19</sup> Such a process necessitates, with the passage of time, the gradual creation of increasingly powerful institutions, as the governments step up their common action or submit new activities to joint treatment. In other words, the ‘globalist’ approach to integration calls for the existence of institutions which, at least at the more advanced stages of the process, have certain supranational characteristics so that fulfilment of the commitments assumed by the member governments can be guaranteed.

In conclusion, it should be pointed out that as a general rule certain prior conditions facilitating an integration process are assumed to exist, such as, for example, a measure of homogeneity in the size and development characteristics of the countries members of the movement, their geographical proximity, their historical and cultural links and their community of interests *vis-à-vis* the rest of the world. From this point of view,

<sup>17</sup> See Ernst B. Haas, “The Study of Regional Integration: Reflections on the Joys & Anguish of Pre-theorizing”, *International Organization*, Vol. XXIV, N° 4, Autumn 1970, Boston, World Peace Foundation, pp. 607-646.

<sup>18</sup> See Ernst B. Haas, *Beyond the Nation-State: Functionalism and International Organi-*

*zation*, Palo Alto, Stanford University Press, 1964.

<sup>19</sup> See Philippe C. Schmitter, “Three Neofunctional Hypotheses about International Integration”, *International Organization*, Vol. XXIII, N° 1, Winter 1969, p. 166.

circumstances suggest that integration is more viable in Central America than, for example, at the Latin American level.<sup>20</sup>

An essay on this subject is a venture not unattended by risks. It might prove somewhat pretentious; moreover, in many instances the facts of the case do not lend themselves to explanations that can be tidily pigeonholed within a theoretical or conceptual framework.

Accordingly, all that is proposed in the present note is to clarify some concepts which may be among those brought up for discussion, during the next few months, with respect to the future of the integration programme, in the context of the draft treaty on the establishment of an economic and social community in Central America.<sup>21</sup>

## 2.

### The concept of economic integration applied to Central America

#### (a) *Past experience: integration styles tried out*

The theoretical approaches described in the foregoing paragraphs do not in reality appear in 'pure' form. Thus, what has been called the 'project approach' may, in a given case, show characteristics more proper to 'market integration' or 'integrated development', and vice versa. In fact, when conceptual and theoretical frameworks are compared with actual experience, what emerges is a 'mix' of the styles described, in which the characteristics of one of them usually predominate.

This is the case in Central America, where trial has been made of the 'project

approach' —exemplified in the Central American Highway Plan or the regional telecommunications network—; 'market integration' —exemplified in the General Treaty on Central American Economic Integration—; and 'integrated development', exemplified in the work done from 1962 to 1966 by the OAS/IDB/CEPAL Joint Programming Mission.

Evidence of this diversity in methods of tackling integration in Central America can be found in many documents. In the very first resolution adopted by CEPAL on the possibility of promoting economic integration, the governments of the region expressed their interest "in the development of agricultural and industrial production and of transportation systems in their respective countries so as to promote the integration of their

<sup>20</sup> For two recent examples, see: Eduardo Lizano (ed.), *La integración económica centroamericana*, Mexico City, Fondo de Cultura Económica, 1972, two volumes; and Edelberto Torres R. (ed.), *Centroamérica hoy*, Mexico City, Siglo XXI, 1975. See also *Revista de la Integración Centroamericana*, published periodically by the Central American Bank for Economic Integration (various issues).

<sup>21</sup> See High-Level Committee on the Restructuration of the Central American Common Market, *Proyecto de Tratado de la Comunidad Económica y Social Centroamericana*, Guatemala, Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), 23 March 1976.

economies and the expansion of markets by the exchange of their products ['market integration'], the co-ordination of their development programmes ['integrated development'], and the establishment of enterprises in which all or some of these countries have an interest ['integration by projects']...<sup>22</sup>

At the same time, the first concrete measures were adopted to give impetus both to integration by projects —i.e., establishment of enterprises— and to market integration —i.e., exchange of products. Thus, on the one hand, in 1952 the Economic Co-operation Committee requested its secretariat to take steps to formulate specific projects for the establishment of new industries,<sup>23</sup> and during the next three years it approved projects for the setting-up of two regional institutions.<sup>24</sup> On the other hand, between 1951 and 1954, on the initiative of the governments concerned, bilateral trade treaties were signed which implied the objective of forming a customs union.<sup>25</sup>

<sup>22</sup> Resolution 9 (IV) of the Economic Commission for Latin America (CEPAL), adopted on 16 June 1961. The notes in square brackets have been added to make the terms used in the present paper more comprehensible.

<sup>23</sup> Resolution 2 (AC.17), adopted on 27 August 1952.

<sup>24</sup> The Central American Technological Research Institute for Industry (Instituto Centroamericano de Investigación y Tecnología Industrial — ICAITI) (1965) and the Advanced School of Public Administration for Central America (Escuela Superior de Administración Pública de América Central — ESAPAC) (1957).

<sup>25</sup> Bilateral treaties between El Salvador and Nicaragua (29 August, 1951), between El Salvador and Guatemala (17 March 1952), and between El Salvador and Costa Rica (18 February 1954).

Towards the middle of the decade, the determination to adopt various approaches to integration found even more explicit expression in a resolution in which the governments decided to reaffirm their interest in the preservation, within the Central American Economic Integration Programme as a whole, of a proper proportion between basic projects of an institutional type and those relating to the promotion of productive activities and the establishment of new industries appropriate to the Central American region.<sup>26</sup>

Similarly, the CEPAL secretariat —which was at the same time the secretariat of the Economic Co-operation Committee— noted several points in documents produced by it around that date.

“A concept of economic integration”, it was observed, “adequate as a starting-point in the case of Central America, would provide for limited integration allied with a policy of commercial and industrial reciprocity. ... Limited economic integration implies a policy which, within the

<sup>26</sup> Resolution 8 (CCE) of 7 May 1965. In commenting on this resolution, the secretariat said that the problem of proportion was in essence a matter of order and opportune timing in the execution of these different types of projects. Admittedly, both had to be and had been included in the programme, but the date and pace of their execution might be gradually modified so that a reasonable proportion between them could be continuously maintained. The promotion of projects of the one type relatively sooner than the other presented advantages and drawbacks which would have to be carefully weighed before their order of development was determined. See the document *La integración económica de Centroamérica. Su evolución y perspectivas* (E/CN.12/CCE/33/Rev.2; E/CN.12/422), 1956, p. 28.

general objectives of economic development, shall be directed to considering the optimum location for some of the outstanding economic activities (especially manufacturing industries, as well as those transforming agricultural and mineral products...)"<sup>27</sup>

Elsewhere it was stated that the constitution of a common customs territory was logically one of the indispensable elements of integration, and that the governments had deemed it necessary to achieve it gradually through the conclusion of bilateral free-trade treaties.<sup>28</sup>

Another view expressed was that "it will not be possible to increase reciprocal trade on a sound basis without an intensification of the efforts made to integrate and coordinate the economic development of Central America".<sup>29</sup>

Hence it can be deduced that the secretariat was exploring the possibility of promoting at one and the same time progress through all three approaches described above: the project approach, the market integration approach and the integrated development approach.

Nevertheless, from 1955 to 1958 a gradual change was observable in the proposals formulated by the secretariat and in the action taken by the governments. In 1955, for example, it was still

<sup>27</sup> See CEPAL, *Preliminary report of the Executive Secretary of the Economic Commission for Latin America on economic integration and reciprocity in Central America* (E/CN.12/AC.17/3), 1 August 1952, p. 35.

<sup>28</sup> See CEPAL, *Política comercial y libre comercio en Centroamérica* (E/CN.12/368), 20 July 1955, p. 118.

<sup>29</sup> See CEPAL, *Analysis and prospects of inter-Central American trade* (E/CN.12/367), 20 July 1955, p. 27.

recognized that the programme adopted from the outset by the Committee was of an essentially limited nature in present circumstances. A customs union was not envisaged as an immediate possibility, nor was the unification of fiscal, administrative, banking or other services. Integration had been conceived in a rather narrow sense, focusing mainly on integration in the industrial field.<sup>30</sup> In 1958, on the other hand, it was asserted that obviously, if integration were to be achieved, the countries seeking it would at least have to reach an agreement among themselves which would enable them to expand their reciprocal markets, with the ultimate aim of forming a customs union and a common market.<sup>31</sup> It was not that the multiple approach to integration had been given up—during this period, the secretariat identified specific projects in eleven branches of industry and proposed mechanisms for their execution, which led the governments to sign a Régime for Central American Integration Industries— but both the CEPAL secretariat and the governments seemed to lean increasingly towards a globalist system, with pre-established targets, and an incrementalist conception of the road to integration (although great care was taken to distinguish between activities directly linked to the integration process and those which were considered of an exclusively national character).<sup>32</sup> Within this global-

<sup>30</sup> See *La integración económica en Centroamérica. Su evolución y perspectivas*, op.cit., p. 6.

<sup>31</sup> See CEPAL, *Informe general de la secretaría sobre el Programa de Integración* (E/CN.12/CCE/113), May 1958, p. 4.

<sup>32</sup> See CEPAL, *Estado general del Programa de Integración del Istmo Centroamericano* (E/CN.12/CCE/71), February 1957, for a state-

ist view, the governments seemed inclined to favour market integration, that is, the free exchange of products, whereas the secretariat apparently considered integrated development more advisable.<sup>33</sup>

In the course of the rapid sequence of events which led first to the signing of the Multilateral Treaty on Free Trade—a selective mechanism for the liberalization of trade—and then to the Treaty on Economic Association and the General Treaty on Central American Economic Integration—automatic liberalization mechanisms—the market integration criterion of the Central American governments was consolidated. The last instrument named—compatible with article XXIV of the General Agreement on Tariffs and Trade (GATT)—was aimed at perfecting a Central American common market within a period of five

ment to the effect that the task of formulating an integration programme with practical possibilities therefore consisted in identifying, on the one hand, the problems which could and would have to be dealt with at the regional level, and, on the other hand, those whose solutions, although dependent upon national decisions, might affect the situation of the whole Isthmus.

<sup>33</sup> “The (Central American Economic Integration) Programme may also be considered as an attempt to co-ordinate and supplement the economic development of the five Central American countries as a joint undertaking. Such a view presupposes that each country has formulated its national development plans as a co-ordinated whole, (and) that a high degree of co-ordination in the matter of economic policy will be gradually evolved...” See CEPAL, “Central American Economic Integration Programme: evaluation and prospects” (E/CN.12/CCE/160), *Economic Bulletin for Latin America*, Vol. IV, N° 2, October 1959, p. 34.

years (in respect both of the free trade area and of the adoption of a common tariff) and at the formation of a customs union, although no deadline was fixed for this. Notwithstanding that in the Treaty all the provisions of the Régime for Integration Industries and of the treaty establishing the Central American Bank for Economic Integration were ratified, since it was considered that they would facilitate the implementation of a system with some of the characteristics of integrated development, there can be no doubt that the Régime was greatly weakened by the securing of free trade for almost all products.

The Central American Integration Programme continued to undergo many adaptations during the 1960s. Integration by projects was given some impetus through the execution of the Central American Highway Plan, the entry into operation of a radio-aids service for aircraft and the signing of the agreement which permitted the construction of the Central American telecommunications network. An attempt was also made to give greater importance to integrated development when the governments decided to form a Joint Programming Mission for Central America—with the support of the Organization of American States (OAS), the Inter-American Development Bank (IDB) and the Economic Commission for Latin America (CEPAL)—which was set up for the two-fold purpose of providing advisory assistance to the countries in the formulation of their development plans, and co-ordinating those plans with the economic integration programme.<sup>34</sup> Appa-

<sup>34</sup> See resolution N° 2 of the Central American Economic Council, adopted on 28 July 1962. In November 1965 the same Council decided to institutionalize the work of the Mission by fully incorporating it in SIECA.

rently, however, the Mission had more success in collaborating with the five countries of the region in the formulation of their own national development plans—almost a prerequisite for obtaining access to the external resources stemming from the programme known as the Alliance for Progress—than in securing the harmonization of those plans in relation to specific integration objectives.<sup>35</sup> Moreover, the integration variable hardly appeared in the national plans formulated with the collaboration of the Joint Mission.<sup>36</sup>

In short, despite the multiplicity of the approaches to Central American integration simultaneously tried out during the 1960s, the integration 'style' which predominated was manifestly the one we have described here as 'market integration'.

<sup>35</sup> See the annual reports submitted to the Advisory Committee by the Chief of the Joint Programming Mission for Central America in October 1962, March 1963, July 1963, March 1964 and December 1965. One of the signs of the relatively slight impact produced by the Mission in the field of joint programming is that the national planning authorities, which met together on only two occasions throughout the whole of the 1960s, never even had before them the document on a regional development strategy prepared during 1966. A summary of the activities of the Mission may be found in Alberto Fuentes-Mohr, "Una tentativa de planificación multinacional: la Misión Conjunta de Programación para Centroamérica", *Revista Interamericana de Planificación*, Vol. VIII, Nº 32, Bogotá, Colombia, Sociedad Interamericana de Planificación, December 1974.

<sup>36</sup> See Panel of Nine of the Alliance for Progress, *Informe sobre los planes nacionales de desarrollo y el proceso de integración económica de Centroamérica*, Washington, D.C., General Secretariat of the Organization of American States (OAS), August 1966, especially pp. 1-8.

(b) *Appraisals of the application of the conceptual frame of reference to the evolution of the process*

It is interesting to contrast the experience acquired in the course of 20 years of integration in Central America with the evolution of this process predictable in the light of the theoretical considerations summarized above. An analysis on these lines may help to clarify the nature of the crisis through which Central American integration is passing and contribute experience and background information which may perhaps provide guidance for the future progress of the movement.

Four major areas of the integration process account for what might be considered its 'crisis': (i) lack of spill-over; (ii) failure to cover the stages envisaged; (iii) distribution problems; and (iv) its insufficient depth, and the tensions that have developed between centralizing and decentralizing tendencies.

(i) *Lack of spill-over.* With regard to the first aspect of the problem, according to the neofunctionalist theory referred to above, the very dynamics of the process would require a steadily increasing number of activities and sectors to be submitted to common treatment; that is, its scope would have to be constantly enlarged. Nevertheless, one of the characteristics of integration in Central America—both during the formative years and, to a greater extent still, from 1966 to the present day—has lain precisely in the fact that deliberate attempts to extend its scope to new areas have proved difficult and fragmentary, and that very little spontaneous spill-over has occurred.<sup>37</sup> Events in

<sup>37</sup> See *Sugerencias para reactivar a corto plazo la integración económica centroamericana*, *op.cit.*, pp. 38-43.

Central America show that rapid strides were made towards the formation of a common market—the market integration described in the preceding section—as well as in the joint treatment of activities directly linked to trade (the construction of the road network, the establishment of a clearing-house, and the harmonization of the fiscal incentives applied to new industrial plants), and that at the same time, despite the efforts of regional institutions and some specific lines of government action, little success attended the proposal to extend the process effectively to other sectors or activities (agriculture, energy, harmonization of development policies and of tax systems, common external trade policy).

It would seem that after a period of rapid—even spectacular—progress in the formation of a perfect free-trade area and the adoption of a common tariff, by the mid-1960s the integration process had apparently reached the limit of its possibilities, and that thenceforward, instead of broadening its scope, it even lost some of the ground gained. For this phenomenon—which is the contrary of what might have been expected in accordance with the theoretical framework previously described—two basic explanations might be found.

The first is that the governments were unwilling to adopt global decisions whose consequences they could not measure, or as to whose potential benefits they probably entertained doubts. For example, no government showed interest in promoting any tax harmonization programme, doubtless because it might have implied, among other disadvantages, potential losses of revenue. Nor was headway made during the past fifteen years in any scheme for specialization in agricultural production, because

each government was anxious to attain national self-sufficiency in respect of basic foods.<sup>38</sup> Furthermore, the degree of economic interdependence among the countries of the area was not yet such that governments were disposed to exchange the real and immediate benefits deriving from a specific activity undertaken at the national level for potentially greater future benefits deriving from more efficient conduct of the same activity at the regional level. Thus, a prerequisite for subjecting any new activity to common treatment was to show that direct benefit would result for each and all of the countries of the region, which was very rarely the case.

The second explanation—of a political nature—might be that the most effective way of subjecting a specific activity or sector to common treatment is to hand over faculties partly or entirely to regional institutions so that they may have at their disposal mechanisms to ensure implementation of the decisions adopted; unfortunately, the story of Central American integration abounds in evidence of the governments' reluctance to transfer powers to such institutions. The General Treaty did not provide for—or contemplate—the establishment of supranational organs; the intergovernmental organs envisaged in the Treaty merely delegated certain powers to the Permanent Secretariat in isolated cases

<sup>38</sup> This circumstance was highlighted during the period 1972-1974, when a drought, combined with distortions on the world market and notable increases in the costs of agricultural inputs, brought about a widespread dearth of basic grains in the area. At that juncture, the export of these commodities from one Central American country to another was described in the exporter country as 'contraband', both by government sources and in the press.

and in relation to highly specific matters.<sup>39</sup> Moreover, despite the obvious need—frequently pointed out in Central America—to adopt some procedure for rapidly and flexibly modifying the Central American common tariff, the governments never managed to reach agreement on this very limited transfer of national faculties to a regional organ, even though it was an intergovernmental organ like the Economic Council that was concerned. Other examples might be cited, such as the unwillingness of one government to entrust part of its foreign trade policy to joint treatment,<sup>40</sup> and the refusal of another to submit its decision to change the parity of its currency for approval by a regional organ—the Central American Monetary Council.<sup>41</sup> It is also worth while to mention the valiant effort made in the mid-1960s to set up a regional telecommunications corporation, which in the end found expression in five national projects, co-ordinated by an intergovernmental commission (Comisión Técnica

de Telecomunicaciones de Centroamérica - COMTELECA). Lastly, it should be noted that decisions adopted by the Executive Council to settle conflicts arising out of free trade were often disregarded by the governments which had voted against them, and this led to open (and frequent) violations of the trade régime.<sup>42</sup> In conclusion, stress must be laid on the vicious circle created by the causes and effects of the limited scope of integration in Central America. On the one hand, the lack of spill-over has been reflected in narrow sectoral coverage of the activities subject to common treatment, with the result that integration has not much significance for national authorities linked to the sectors left out (for example, the Ministers of Agriculture and of Finance, and the Planning Directors). For this reason, presumably, they have taken little interest in the process and have devoted all their attention to tackling development problems from a national standpoint. On the other hand, the fact that most government authorities have neither found integration of any assistance in solving the problems with which they are confronted in the performance of their everyday tasks, nor become thoroughly familiarized with its objectives, mechanisms and scope, has undoubtedly helped to make the deliberate extension of the process to new sectors an even more difficult matter.

(ii) *Failure to cover the stages envisaged* The second element in the Central

<sup>39</sup> See Guatama Fonseca and Dante Ramírez, "Los órganos del Tratado General de Integración Económica Centroamericana", *Derecho de la integración*, N° 6, Buenos Aires, April 1970, p. 93.

<sup>40</sup> See the report of a meeting on trade negotiations, held at Managua, on 30 April and 1 May 1974, between representatives of the Central American Governments and the Special Representative of the President of the United States of America.

<sup>41</sup> See SIECA, *Exposición del Banco Central de Costa Rica sobre las medidas sugeridas para corregir los problemas de balanza de pagos y fiscal*, Tegucigalpa, 6-7 January 1967; Executive Secretariat of the Central American Monetary Council, *Implicaciones de las medidas cambiarias adoptadas por Costa Rica el 19 de junio de 1971*, Memorandum 9-71, San José, 22 June 1971.

<sup>42</sup> See Francisco Villagrán Kramer, "Los procedimientos que de hecho se utilizan en el Mercado Común Centroamericano", *La solución de conflictos en la integración latinoamericana*, Buenos Aires, Inter-American Development Bank/Institute for Latin American Integration, (IDB/INTAL), 1972, pp. 25-174.

American integration 'crisis', closely linked to the preceding factor, is the failure to cover the stages envisaged (a perfect common market within five years' time, as from 1960, and gradual evolution towards a customs union). The adoption of targets and stages is a typical reflex of the purpose of progressively enlarging the scope of the process—the 'incrementalist' view—which characterizes both market integration and the integrated development approach. This expectation of spill-over carried with it, in Central America's experience, two serious disadvantages: it gave rise to exaggerated suppositions regarding integration, and introduced rigidities into the process. These two observations will next be discussed.

In the first place, the conception of integration as a linear and cumulative process—which was the idea that actually prevailed in Central America—rules out the possibility of recognizing that a process of this type may, at a given moment, become stabilized or reach its break-even point. If this latter characteristic had been admitted, perhaps it would not have been felt towards the end of the 1960s that integration had entered upon a critical stage. On the contrary, the Central American Programme has done better, in a very short space of time, than any other subregional integration movement in the developing world. It might well be argued that the process in question reached its break-even point in 1966, and that the governments could have declared themselves satisfied with the results, without, for the moment, seeking to carry the movement any further. It is when achievements are compared with the expectations aroused—with the notion that the process must inevitably continue expanding—that one can understand the

sometimes unduly facile use of epithets such as 'crisis' and 'fracaso'.<sup>43</sup>

Secondly, the rigidity introduced by linear and cumulative progress towards a predetermined goal consists in the fact that all the efforts of governments and regional institutions are concentrated upon the attainment of the goal in question, sometimes at the expense of other activities which might even be of greater importance for the integration movement. It should be recalled that in Central America's case the process of perfecting the Common Market had by the mid-1960s acquired so compelling a logic of its own that sometimes the constitution of a customs union seemed to become an objective *per se*. Such a conviction has the drawback of blinding those who hold it to other additional objectives, as in fact happened in Central America. Thus, when some countries began to call in question the desirability of a customs union, the Programme, victim of its own approach, could not redefine its objectives, nor immediately incorporate into the tasks of integration activities which had not been contemplated in the General Treaty.

Lastly, the experience of the 1960s has shown that the evolution of the process, apart from not necessarily leading to the formation of a larger unit, permitted in the course of time the emergence of factors which actually detracted from its viability. Thus, with the increase in the size of the national markets—for example, in 1975 Guatemala's gross domestic product was similar to that of the entire area in

<sup>43</sup> Admittedly, of course, other factors nurtured the increasing dissatisfaction with the operation of the Common Market. Some of them—especially the distribution problem—will be discussed below.

1955—, specific branches of activity were able to operate with reasonable margins of economic efficiency on a domestic market basis, and as from the close of the 1960s there were signs that each of the Central American countries was going in for industrialization with a view to substituting domestic production for imports from the rest of the Common Market, while the relative share of inter-Central American trade in the foreign trade of the area has been steadily declining since 1971.

(iii) *Distribution problems.* The third element in the integration crisis is the well-known distribution phenomenon. As has already been noted, any scheme for interdependence is bound to generate problems of this type among its members, and the scope of such problems in the case under review needs defining. It is untrue that in an integration process like that of Central America costs for specific countries are necessarily reflected in benefits for the rest; as was pointed out in a recent document, the programme distributes the costs and benefits of integration unevenly, to the disadvantage of a particular country, a circumstance which, far from resulting in net benefits for the rest, becomes on the contrary a source of cumulative costs which affect them unfavourably.<sup>44</sup> And this has in fact happened in Central America; the relative poverty of at least one of the member countries has tended to become a cost that hampers the satisfactory progress of the entire Common Market.

Undoubtedly, the present situation must be partly attributed to the integra-

tion style prevailing in the region—market integration—since it is the one that makes it most difficult to cope with a distribution problem such as that described above. Since the operation of free trade was left to the mercy of market forces—it should be recalled that one of the few corrective mechanisms at the disposal of the scheme, i.e., the Régime for Integration Industries, was hardly applied in practice during the 1960s—the new investments encouraged by the expanded market were channelled towards the areas or countries which had the biggest market and the best developed physical and human infrastructure.

It would be unfair, however, to impute the Central American distribution problem solely to the integration style adopted during the 1960s. Those same circumstances that helped to limit the scope of the process would almost have rendered inoperative a different 'style' such as the integrated development approach—which in theory at least tackles the distribution problem—, because the co-ordination of policies for distributive purposes entails submitting some lines of action to common treatment, and that would have necessitated the delegation of national powers to regional agencies. As shown above, past experience suggests that such a situation would have been unlikely to materialize.

A higher degree of co-ordination of policies, especially at the level of joint formulation of national development plans, is attractive and desirable as a means of pushing ahead with integration and at the same time securing better distribution of its costs and benefits among the member countries. Nevertheless, it would also be a mistake to pin exaggerated hopes to a reorientation of this type in the Central American integration 'style', at least to judge from the brief

<sup>44</sup> See CEPAL, *Planteamientos y posibles medidas en torno al problema del desarrollo equilibrado en Centroamerica* (CEPAL/MEX/74/22), November 1974, p. 8.

experience of the Joint Programming Mission. In the first place, because overall development planning is still on a shaky footing, even at the level of the individual countries, and because the incorporation of integration objectives in such plans does not necessarily mean that subsequent official action will be in line with them. Secondly, the integration variable—although of increasing importance—still carries relatively little weight in the individual Central American economies,<sup>45</sup> and it is perhaps for that reason that the region's planning experts have shown a marked tendency to regard integration as a mere appendix to national economic development, and to continue following this criterion in economic and social development planning. Thirdly, the consensual character of any integration movement precludes the possibility of strict programming of the members' commitments, since every proposal will have to pass through the natural process of negotiation. Lastly, even if a consensus were reached with respect to a regional development programme, a centralized agency would have to be established—a community organ endowed with supranational powers—with sufficient authority to enforce its implementation by the participants: a very unlikely eventuality, to judge from what has happened in the past.

These indications of the potential limitations of joint programming are corroborated by the experience of other integration movements in which care has

<sup>45</sup> In 1975, the proportion of the gross domestic product represented by exports to the rest of the Common Market was as follows: Guatemala, 4.4 per cent; El Salvador, 5.1 per cent; Honduras, 2.1 per cent; Nicaragua, 5.6 per cent; and Costa Rica, 4.6 per cent.

been taken to confine the area of joint programming to the activities strictly necessary to make integration work well. In the Andean Group, for example, where exceptional importance has been assigned to what are termed sectoral industrial development programmes, joint programming has in fact been applied only to a few projects or sub-branches of industry which are considered to be of primary importance for the progress of integration.<sup>46</sup> Even the Council for Mutual Economic Assistance (CMEA)—an integration movement among countries with centrally-directed economies—formulates joint plans of limited scope. Thus, a recent CMEA publication notes that socialist economic integration is effected on an entirely voluntary basis and is not accompanied by the formation of supranational agencies, nor does it affect problems related to internal planning or to activities in the field of finance and financial self-management.<sup>47</sup>

To sum up, during the 1960s the integration style adopted did not allow mechanisms to be brought into force which would promote better-balanced development as between the Central American countries, and doubt may be felt, for reasons noted above, as to the efficacy of the mechanisms that might be introduced under a style more closely linked to integrated development.

(iv) *The insufficient depth of the process.* The fourth and last element in

<sup>46</sup> See Board of the Cartagena Agreement, "Bases generales para una estrategia subregional de desarrollo", Andean Group, Separata N<sup>o</sup> 11, May 1972, p. 5.

<sup>47</sup> See CMEA, *Programa complejo de profundización y perfeccionamiento de la colaboración y de desarrollo de la integración económica socialista de los países del CAME*, Moscow, Editorial Progreso, 1972, p. 13.

the Central American integration crisis is to be found in the insufficient depth of the process and in the tensions that have arisen between centralizing and decentralizing tendencies, the term 'depth' being understood to mean the extent to which governments confer powers on regional institutions.<sup>48</sup> In this connexion, the evolution of Central American integration institutions would seem to reveal two basic facts. Firstly, the Programme cannot be said to have resulted in increased delegation of faculties or powers to regional institutions, as might have been expected in the light of neofunctionalist theory. Secondly, it is endowed with a decentralized institutional structure, which has also been the object of centralizing aspirations that have had to remain unfulfilled.

The first of these characteristics has been reflected in little power of initiative, limited financial autonomy and restricted capacity to ensure implementation of the decisions adopted. In consequence of their scant power of initiative, for example, the regional institutions have not attempted to go beyond the limited objectives which the constituting instruments had assigned to the Programme, and this in its turn has led to over-concentration of attention on monitoring the execution of the original commitments. The lack of financial autonomy has been evidenced in a high degree of dependence on government contributions (and, in default of them, on external sources). Lastly, it was largely due to the governments' reluctance to accept any solution of a supranational character that the institutions were not granted the necessary powers to enforce

<sup>48</sup> See *Sugerencias para reactivar a corto plazo la integración económica centroamericana*, op.cit., p. 36.

the implementation of decisions adopted by common accord. Hence it has been a characteristic of the process that important decisions adopted have often become a dead letter, or, again, agreements or treaties formally signed have remained unratified for long periods, and even when their ratification has been secured it has not been possible to put them into operation.

In short, the institutional evolution of Central American integration makes it evident that between the attempts of the regional institutions to acquire greater powers and the tenacious opposition of governments to the granting of such faculties a tug-of-war has taken place, in which the governments have ultimately been victorious.

Furthermore, in institutional respects the process betrays a tension—apparently unresolved—between the existence of a decentralized institutional framework and the endeavours made to introduce some degree of co-ordination through centralization. This tension may be said to have accompanied the integration process from its very birth, when the tasks relating to economic integration were kept separate from those aimed at political unification, the two types of activity being pursued in different forums and institutions and with little co-ordination between them. It should be recalled that during the 1950s, the Organization of Central American States (OCAS) made an attempt to bring economic integration activities under its control and co-ordination, but was unsuccessful.

Within the sphere of strictly economic efforts, the programme is marked by a decentralized institutional set-up, resulting precisely from the application of several different approaches in Central American integration, since, on the one

hand, separate institutions were established to be responsible for some particular joint activity (like ESAPAC and ICAITI), whereas, on the other hand, emphasis on trade integration led to the emergence of the programme's own organs (the Economic and Executive Councils and the Permanent Secretariat). To the foregoing may be added, *inter alia*, the specific institutions in the fields of monetary integration (the Central American Monetary Council) and of regional financing (the Central American Bank for Economic Integration).

The decentralization described indubitably involved certain advantages: for example, the full brunt of the effects of the 1969 conflict between two of the countries participating in the programme did not have to be borne by a single institution. While the Organization of Central American States (OCAS) was seriously weakened, the Central American Bank for Economic Integration (BCIE) and the Central American Monetary Council continued to operate more or less normally. These advantages were not always turned to good account, however, because of the permanent tension created by the claims of some institutions to supremacy over others,

and the action taken by all of them to preserve their relative autonomy. For example, it was never possible to subordinate BCIE's financing programme to the overall development policies drawn up by SIECA and approved by the governments (policies which, moreover, were never systematically formulated), nor did the experience of the 1960s testify to much co-ordination between the activities of SIECA and those of the Executive Secretariat of the Central American Monetary Council. It is true that the tensions arising out of the desire to co-ordinate the work of all these institutions (centralization) and their autonomous action (decentralization) could have been somewhat eased by the establishment of a voluntary co-ordination and consultation mechanism. But the sporadic inter-institutional meetings held throughout the period under review seldom led to the identification of areas of common interest on which the regional institutions could present a united front *vis-à-vis* the criterion of the governments. Rather did they reveal the wasteful expenditure of energy in coping with the tensions in question, which only helped to weaken the relative influence that each individual regional institution could exercise over the governments.

### 3.

## Implications of past experience for the future

#### (a) *General considerations*

Undoubtedly, Central America would be in a better position to con-

front the many obstacles to its development if it were a larger economic unit instead of five separate economic entities. The obvious advantages which make its economic integration advisable

—economies of scale, more rational location of investment, greater specialization at the regional level, more efficient utilization of the area's resources, improvement in its bargaining power *vis-à-vis* third countries— are well-known, and require no further analysis. It is therefore perfectly justifiable, *prima facie*, to promote ever-increasing economic interdependence between the five economies of the region, as the best way of accelerating development in each country.

This does not mean, however, that a predetermined goal—such as that of establishing a customs union or forming a bigger economic unit— will necessarily have to be pursued, since, as indicated earlier, past experience in Central America and in other integration movements shows that the construction of legal instruments which are too closely geared to achieving such objectives, instead of ensuring their attainment, is conducive to their violation; and the 'incrementalist' or linear view associated with this approach impedes the incorporation in integration activities of new fields not envisaged in the original commitments.

The experience gained in the operation of the Central American Common Market in the 1960s can teach other important lessons of which advantage ought to be taken in mapping out the future progress of the movement. It would be advisable, for example, to continue to promote integration—as was done in the past— by means of several simultaneous approaches, although a shift of emphasis in respect of the predominant integration style would seem to be justified, at least until significant changes occur in the degree of political will shown by the governments to allocate greater powers to the regional institutions.

It would also be as well to avoid some of the problems that arose in the 1960s as a result of the excessive emphasis placed on market integration, because that made it difficult to smooth out the inequalities in the distribution of the costs and benefits deriving from the process. This does not, of course, imply failure to recognize the considerable headway made so far in the establishment of the Common Market. One of the key tactics on which Central American integration would have to rely in the next few years is precisely the preservation—and as far as possible the improvement— of what has been achieved in the past in respect of the free-trade area and the common tariff. In other words, the market integration approach will be bound to continue playing an important role in the future.

A second tactic could be the assignment of greater importance to the project approach. Thus the future integration process would be guided by more pragmatic and realistic criteria, some of the obstacles that have hindered progress in the past fifteen years would be avoided, and integration would more usefully serve the fundamental end represented by the countries' economic and social development.

Stronger emphasis on integration by projects affords considerable advantages. In the first place, it seems to offer greater possibilities of correcting disequilibria, particularly if the identification and preparation of joint projects or activities are supplemented by increased support from the Central American Bank for Economic Integration. Secondly, it eliminates objectives that are utopian or unattainable within specified deadlines, failure to meet which, owing to political factors, merely helps to weaken the process. Thirdly, it is the most flexible

system for the incorporation of new activities more outstandingly important for integration, thus permitting the interests of the five countries to be more effectively unified in specific joint activities.

Moreover, if in view of the development of the process – and as a result of the progress achieved by placing greater emphasis on integration by projects – the governments showed that they were politically prepared to take integration a step further by gradually delegating powers to the regional institutions, it would be possible to continue advancing through the adoption of a third tactic: the integrated development approach.

It must be stressed here that the process in mind would not be devoid of a conceptual framework and based exclusively on pragmatic or ‘immediatist’ action which might or might not ultimately serve the purpose of increasing the degree of interdependence among the countries. The aim, in the last issue, should be to promote such interdependence by all the means in the power of the governments and the regional institutions, always with the idea of cooperating in the development of each individual country and, therefore, of the region as a whole.

In short, the intention would be deliberately to expand the scope of the Central American integration process by incorporating new activities which the governments would undertake jointly, without neglecting follow-up of the progress already achieved. With such an approach, the emphasis would fall more on *integration activities* and less on the fulfilment of *formal commitments*.

The main criterion ruling the adoption of new projects or joint activities would be simply the possibility of generating benefits for the various countries.

The application of this criterion and the increasing interdependence and community of interests among the countries that would gradually emerge would indicate the lines along which integration should develop in the future and would help to overcome any opposition there might be to the adoption of more ambitious measures.

All this would mean deferring objectives of a global type, such as, for example, the formation of a customs union within a specific period, or the perfecting of an economic union. It would be sufficient to adopt as a general integration objective that of furthering the development of the five countries of the region, and as an instrumental objective that of reaching higher levels of interdependence, without stipulating stages on the way.

Moreover, it would seem preferable to abandon the ‘incrementalist’ or linear view – that one stage inexorably follows another – in favour of a ‘sequence’ whereby the increasing degrees of interdependence sought would be attained not in predetermined succession but only when the actual dynamics of the process so dictated and prevailing circumstances permitted.

Consequently, any excessively globalist pretensions, in the sense of endeavouring to deal simultaneously at the national level and within the context of integration with all activities related to economic and social development, would have to be renounced.

Lastly, it would be necessary to design an institutional framework that would be applicable to a multiple system, with special emphasis on integration by projects. Some of these propositions are explained in greater detail below.

(b) *Requirements in some specific areas*

The adoption of an integration system in Central America which would give more importance to integration by projects within the range of approaches suggested –again it must be urged, without completely abandoning the application of the other approaches– would influence the method of organizing the effort to achieve increasing degrees of interdependence. First, it would be necessary to specify criteria for selecting new activities to be subjected to common treatment; secondly, the institutional framework –at the national and regional level– would have to be shaped on the lines required by the project system. While no attempt will be made to deal with the subject exhaustively, some considerations on these aspects of the problem are presented below.

(i) *Criteria for the selection of priority areas.* As pointed out earlier, integration projects should bring intrinsic benefits to the member countries and also generate advantages which are beyond their reach when they are operating unilaterally. These benefits may derive from (a) projects or joint activities implying economies of scale; (b) projects entailing indirect benefits or external economies; and (c) projects which help to reduce the vulnerability of the participating economies. A combination of these possibilities may, of course, occur.

Projects implying economies of scale are the most obvious and the most commonly invoked justification for integration, particularly in small markets like those of the individual Central American countries. This advantage is most frequently exemplified, of course, in the manufacturing sector, and as technological innovations are introduced the

economies of scale increase. For instance, the operation of a specific plant on reasonably efficient lines may require the expanded market of several countries under an integration programme. In other cases, it will be simply a matter of taking advantage of that market to install a few plants operating at optimum capacity instead of a larger number operating below the optimum level. The establishment of plants that will operate at their maximum capacity is also important if competing on the world market is an end in view, a point which is likewise of interest to the Central American countries.

The possibility of profiting by economies of scale is not, however, limited to the manufacturing sector. Although it may not seem a very important factor in agricultural production, there may be advantages in operating jointly in the fields of processing and marketing. In the case of Central America, for example, joint action –by either the public sector or private entrepreneurs– might be considered in connexion with the sale of fruit and vegetables from the whole region to third countries.

Another sector in which concerted action permits a saving in costs is that of physical infrastructure, as regards not only the joint designing of projects in the transport, communications, energy or water resources sectors, but also their joint operation or management. Similarly, there are evident advantages in dealing jointly with research and some aspects of education, a fact which was recognized in the first half of the 1950s with the establishment of the Nutrition Institute for Central America and Panama (INCAP), the Central American Research Institute for Industry (ICAITI) and the Advanced School of Public Administration (ESAPAC) (now the

Central American Institute of Public Administration (ICAP) ).

Lastly, the services sector offers distinct possibilities for taking advantage of economies of scale, as has been shown in the East African Community, where a regional port unit, airline and railway line have been set up, as well as a single postal service. In Central America, examples of this type of joint action can also be found in the radio aids to aircraft provided by the Central American Air Traffic Corporation (COCESNA) and in the joint efforts to promote tourism through the Secretariat for Central American Tourism Integration (SITCA).

The indirect benefits or external economies which might be obtained from joint projects or activities are closely related to the benefits deriving from economies of scale, but they may have a value of their own. For example, entrepreneurial capacity in Central America could be improved by means of regional projects. A secondary benefit stemming from the execution of a regional project may be the encouragement of a higher level of competition, which would redound to the advantage of the consumer and would help to increase efficiency.

The third criterion mentioned—reduction of the vulnerability of the economies—is based on the fact that in many cases governments can more effectively counteract factors which are adverse to their economic development by taking joint instead of unilateral action. The external sector probably offers the best chances in this respect, both because a region has stronger bargaining power *vis-à-vis* third countries, and because it affords greater room for manoeuvre in influencing the behaviour of exports, imports or movements

of capital.<sup>49</sup> In other words, the reduction of the external vulnerability of the Central American economies is another of the main justifications for undertaking joint projects or activities.<sup>50</sup>

Not only can adverse factors of external origin be dealt with in common, however, but also some of internal origin. The identification and execution of activities within the framework of integration, for example, may permit a greater degree of intervention in some that are awkward or over-risky to tackle at the internal level, as might be the case with regard to action in the tax field or a regional policy *vis-à-vis* direct foreign investment. At the same time, regional activity can reinforce action taken by each government at the internal level; there is no doubt, for example, that the work of the Joint Programming Mission referred to in the previous chapter strengthened the planning process at the level of the individual countries.

In brief, integration offers a platform for action which at the national level may not be regarded as necessary, but which would favourably influence the development of the individual countries, and, moreover, would give the group of countries as a whole additional economic

<sup>49</sup> This factor was undoubtedly taken into consideration when it was decided to establish the Latin American Economic System (SELA), constituted under an agreement signed in Panama on 17 October 1975. However, the possibility of deciding on specific activities in the field of foreign trade, for example, is greater among a group of countries as homogeneous as those of Central America than among so heterogeneous a group as the members of SELA.

<sup>50</sup> See *Sugerencias para reactivar a corto plazo la integración económica centroamericana*, *op.cit.*, especially pp. 61-93.

strength to overcome the obstacles hindering its development.

Lastly, it should be noted that the idea of reducing the vulnerability of the Central American economies on the basis of joint activities is not confined to the public sector alone. Entrepreneurs too have discovered the advantages of joining forces at the regional level—a case in point is the Central American Federation of Manufacturers' Associations (FECAICA)—in order to give more weight and specificity to the demands they put before their governments.

(ii) *How to deal with distribution problems.* The fact that a joint project or activity may bring benefits, either because it implies economies of scale and indirect economies or because it helps to make the economies of the region less vulnerable, does not mean that such benefits are distributed equally among all the countries. What is more, in such cases as, for example, the establishment of a single industry to supply regional demand, the benefits may be concentrated in the country where the plant is located and, in line with the reasoning of neo-classical economic theory,<sup>51</sup> may even be converted into costs for the rest of the countries.

Hence the importance of distinguishing between activities which involve sacrifices of some kind for the participants and those which represent no cost to any of them, or whose cost can be transferred to third countries. For example, the establishment of a Central American company for marketing vegetables abroad may in all probability entail no sacrifice for any of the countries in comparison with what is likely to happen when each performs this task unilaterally. This type of project would

<sup>51</sup> See *The Customs Union Issue*, *op. cit.*

be the most acceptable from the standpoint of the distribution of benefits. Others, in contrast, do raise the problem of costs for some and benefits for others. For example, the establishment of an industry in one of the countries may yield profits which are seen as losses by the rest. To even matters up, it is advisable to prepare groups of projects in sufficient number to ensure that the sacrifices which one country may have to put up with in some activities will be offset by the benefits obtained in others, without of course carrying this to such an extreme as a mathematical distribution of costs and benefits among the five countries of the region.

Furthermore, in analysing new projects the distribution criterion should always be kept in mind. Thus, preference could be given to projects whose optimum location from the economic standpoint favoured the relatively less developed countries of the region.

Another way of mitigating distribution problems when projects involved financial costs would be to obtain external support (for example, through international technical co-operation), in particular in order to reduce the burden for the relatively less developed countries, and thus make the projects viable.

Lastly, it should be noted that it is the responsibility of the promotion instruments at Central America's disposal, especially the Central American Bank for Economic Integration, to assign projects to specific countries on the basis of both optimum location and distribution criteria.<sup>52</sup>

(iii) *The role of programming.* National planning has always been linked

<sup>52</sup> See *Planteamientos y posibles medidas en torno al problema del desarrollo equilibrado en Centroamérica*, *op. cit.*, pp. 31-33.

with integration, within what is described here as the 'integrated development' approach. The role of planning in Central America's future integration process would be no less important, even if preference were shown for the integration-by-projects style.

In that event, it would not be absolutely necessary to contemplate the overall or even the sectoral programming of the economic activity of the individual participating countries in a regional context; what could be considered would be the programming of limited objectives. The idea is that planning offices in Central America should participate fully in the process of identifying projects and in the specific activities that would be the object of joint action, in line with the above criteria. At the same time, the planning offices would perform the essential task of gradually incorporating in their respective national plans the regional projects assigned to the individual countries, under whatever consensual agreements might be concluded. Lastly, once certain regional projects were included in a specific national plan, the planning office of the country concerned would supervise their timely execution. This task of supervision would be complementary to the promotion activities carried out by the Central American Bank for Economic Integration and the respective national development institution.

Decisions regarding the allocation of projects and their incorporation in national development plans require the convening, at fairly regular periods, of meetings of government officials holding different ranks in national planning offices—including the Directors themselves—so that they can become directly acquainted with the process of identifying and preparing projects of regional

interest. These questions are examined in greater detail below.

(iv) *The institutional framework.* An integration approach such as that under review, in which greater emphasis is placed on integration by projects than in the past, points to institutional decentralization. In fact, in line with the principle that institutional solutions must respond to the objectives pursued in each joint activity, there might emerge, as an extreme case, an institutional formula for each joint project or action, depending on the objectives pursued. It is impossible in the present phase of Central American integration, to visualize a formula that would be universally valid for all activities undertaken in common.

It might be argued that this implies some contradictions and a certain amount of overlapping of functions and inefficient use of resources, but that happens even in each country's own public administration, and the disadvantages would be amply offset by the advantages of institutional decentralization in a process which has not yet compassed the formation of a major unit possessing regional organs with supranational features. One of these advantages is that some sectors would make more progress than others and, in times of crisis, the adverse effects would be spread over several institutions instead of being concentrated in a single one.

This is by no means intended to suggest that there should be no coordination between regional institutions. It only recalls the lack, within the integration programme, of a central entity with sufficient authority and power to enforce the implementation of decisions both by governments and by the other regional institutions.

Nor would a system such as that described necessarily exclude a community

organ; rather it influences the type of powers that would or would not be assigned to the organ in question. This subject will be reverted to later.

Thus, on the basis of the objectives pursued in each project or joint activity, distinctions may be established between the institutional frameworks required for each type of activity. First, there would be those activities in which the participating governments possess a certain amount of experience but the benefits of which are obtained unilaterally. If the execution of joint activities in these fields would not immediately bring greater benefits to all concerned—a matter that would have to be determined case by case—the action taken could be reduced to mere exchanges of information and experience with a view to the identification of areas of common interest. Such exchanges could take place at intergovernmental meetings of experts which would precede the adoption and execution of any common project. That is what happened in Central America, for example, during the 1950s, with the various sub-committees of the Economic Co-operation Committee, some of which still meet periodically.

This fairly simple type of institutional arrangement requires at least the existence of a secretariat that will assume responsibility for the compilation of data, procedural matters (such as the convening of meetings, agendas and records), and the identification of the first joint projects, while the participants are amassing the necessary reciprocal knowledge. After identifying a common project, these intergovernmental expert committees would submit it for approval by a higher authority—preferably with ministerial status—and the secretariat

serving at the expert level could also serve as such at the ministerial level.

Secondly, in the case of a project involving a specific activity the benefits of which would be accessible to all participants, the institutional formula would also be relatively simple. The financing of the project—either by equal or by unequal contributions, according to whether the distribution problem is or is not to be taken into account—would represent a body of resources whose management would be entrusted to a group of regional specialists under the direction of an intergovernmental committee which would adopt its decisions unanimously. This has generally been the formula used in the regional research institutes of Central America, with satisfactory results. Experience would seem to advise its adoption, as far as possible, through the conclusion of an international treaty that would endow the group executing the project with the necessary legal status.

Thirdly, for the provision of a regional public service a more complex institutional formula would be required. As in the case of the radio-aids for aircraft provided in Central America by COCESNA, a regional corporation could be set up, to be financed by its members, whose representatives would form its supreme organ. The distribution of profits, if any, would be proportional to the contributions, and here again the alternative course of unequal distribution of contributions and profits might be considered, still with a view to balanced growth. The establishment of such a corporation would also have to be based on the conclusion of an international treaty giving the executing authorities the legal status necessary for the provision of the service.

As noted earlier, in none of the alternatives hitherto described should the possibility be overlooked of obtaining external financing to supplement the financing contributed by the participants. In all the cases mentioned, it would help in some degree to reduce the cost that the execution of the project might involve.

Lastly, for projects connected with the production of a good or the provision of some service by private investors, or in the case of mixed investments, it would be advisable to prepare a regional statute to regulate the constitution of regional enterprises. Until such a statute were brought into force, enterprises would have to be established in accordance with the laws of the member country where the project was located, and operate on the basis of free trade and the protection afforded them by the common tariff, or of the fiscal incentives they received from the host country. If such enterprises were to have exclusive access to the expanded market, it would be necessary to explore the desirability of adopting regional provisions to regulate their operation and prevent their monopolistic position from affecting consumers in the region. Such regulations already exist in Central America for enterprises classified under the Régime for Integration Industries. Advantage could be taken of that experience in the case of similar enterprises. The decision to establish a specific industry would be complemented by an intensive promotional campaign which could be entrusted to the Central American Bank.

All the above considerations refer to any new projects or activities which the participants might decide to undertake jointly in view of the impossibility of obtaining identical benefits unilaterally.

With this same purpose of obtaining greater benefits, some activities which the governments are already carrying out individually could be tackled on a regional scale. The institutional solution would then be more complex, since in so far as the aim was to make activities that already existed at the national level compatible at the regional level, some formula would have to be found for co-ordinating policies, and this would involve, in addition to the actual work of co-ordination, the indication of certain regional priorities to which government action might have to be subordinated. In this case, the co-ordination of policies would have to be conceived along such lines as to bring the participants some tangible benefits in return. Here an example is set by the co-ordination activities which are made a requisite for obtaining financing, in the recent loans extended by the Central American Monetary Stabilization Fund (FOCEM) to three central banks in the region.

Another important point in connexion with the institutional aspect is that the groups or units directly or indirectly benefiting from each new joint activity, i.e., those most interested in the execution of the project, should be identified as clearly as possible. This would apply not only to governments, but also to the interested private groups in the region. An essential requisite would be that neither the one nor the other should be visualized as a unitary body with a monolithic will. Such concepts as the "national interest" or the "interest of the private sector" have been shown, in practice, to be too abstract, because underlying them are the internal conflicts occurring within each government or interest group with respect to the formulation of what is then interpreted as the "national" or "entrepre-

neurial" position. The aim behind this non-unitary conception of the agents of the process is to make use of the diverse influences wielded by their component elements in determining the resultant position reached.

A further effect of integrationist measures which should be expressly pursued is to promote the greatest possible regional solidarity among government officials or units, or homologous groups which have to deal with similar problems at the national level. The way the Central American Monetary Council has been operating may serve to exemplify this type of *esprit de corps*, which has been established between the central banks of Central America, at different levels of authority, and has brought out a regional solidarity based on a shared view of their position within the individual governments. To this may be ascribed the positive results achieved in connexion with monetary integration.

It would be equally interesting if each new integration activity served to increase the participants' operating capacity in sectors that were relegated to a secondary plane. A case in point, for example, is the TRANSMAR project, which has brought into focus the need for government units specializing in the design of port and maritime navigation policies. Of course, the establishment and strengthening of such units would later raise the more difficult problem of regional co-ordination for their operation, but that is no reason why their

mere establishment should not be one of the positive effects of any integration activity.

None of the foregoing comments refers to the institutional requirements involved in conserving the interdependence already attained—as in the case of free trade and the common tariff in Central America—because the only possible way to preserve it would seem to be to continue unflaggingly increasing it by specifying and putting into practice new activities complementary to those already existing. The need to extend the coverage of the existing activities and include other new ones is considered an important part of this conception of integration, and in such an event the new complementary activities would have to be identified and carried out by the same institutions as were responsible for the original undertakings.

The institutions referred to could continue to operate as multinational units without supranational powers—like SIECA—, but with some of the features of a community organ, as, for example, the power of initiating action. In both cases, their main responsibilities could be (1) systematically to identify new areas of interest with a view to deliberately producing spill-over; (2) to undertake follow-up and promotion activities in connexion with the execution of such projects; and (3) to co-ordinate, on a consensual basis, the activities of the rest of the regional institutions.

## *Comments by Cristóbal Lara Beautell*

It was fortunate that the agents of integration in Central America never troubled their heads about the style that had been adopted, or the characteristics of the integration model that was being created; whether the process was being conducted on 'incremental', global or partial lines; or, lastly, whether one or other of these characteristics corresponded to one or other specific type of co-operation. Though it may seem an irony, no fixed rules governed integration in its formative phase in Central America, the approach changing in accordance with what were deemed to be the needs of the region. For it was not so much the type of integration pursued that was of concern as its repercussions on the regional economy, and, specifically, the physiognomy that would supersede the old patterns displaced by new developments.

Today we are suffering from an itch for classification so acute that at times activities are felt to be of interest less for their results than for the broader type of action within which they are comprised: in other words, for their classification. And this almost inevitably determines a leaning towards isolated and sometimes small-scale activities, which are proposed and advocated precisely because of their isolation, because they are viable, because supposedly they can be carried out at no cost to anyone or benefit all alike, or in the light of any other criterion relevant to the status and characteristics of the recommended groups of decisions. Not very many years ago, in Latin America, there were some who went so far as expressly to defend what was then called micro-integration, that is, the promotion of common activities on a small scale.

As such activities, however sporadic or modest, need something behind them greater than themselves to give them impetus, and that 'something' not only has lost strength in recent years, but is sometimes considered unnecessary and even counterproductive, the path they offer may lead to a veritable *cul-de-sac*: to utopias in reverse, which are as unattainable as utopias themselves, but, unlike these, even if they were attained would bring about no fundamental change.

Herein lies initial food for thought. Whatever the extent to which the advance towards any action of far-reaching scope has been interrupted or seriously hindered, it is still true that neither Central America nor, where the case arises, any other Latin American region will achieve its integration through isolated activities, related to narrow horizons. Whether we like it or not, a minimum push must be given without which continued progress will lack impetus or will not be possible at all. In other words, specific activities, however specific they may be, will thrive in the propitious environment of broader impulses and programmes from which they will stem.

This is a point worth dwelling on, because it is fashionable to believe that much of what happens outside integration programmes (agreements between private enterprises, joint investment projects and the ways in which the transnational corporations specialize for the market) occurs independently not only of the programmes but of integration itself. And given this belief, it is only one step farther to the replacement of integration programmes — complex, entailing commitments and presumably of indefinite duration— by specific projects

of limited and clearly-defined scope and effects.

Experience in Central America, and in other Latin American regional groupings, does not bear out such a view; non-formal or parallel integration comes into being, in the natural course of things, in an environment already rendered favourable for its emergence by the fact that integration programmes themselves and policy commitments have held out prospects of profitability and the certainty of permanence.

Consequently, such central integration impulses are an indispensable requisite if all the rest is to follow. Or, to put it better, instruments and policies will sometimes need changing because they are worn out by too much use, because they have entered upon a phase of manifestly diminishing returns, or, because, on the contrary, after years of lying idle they have grown rusty, as may also happen, and indeed has happened with some of the integration policies subscribed to in their time. But what will not be possible is to dispense with the central impulse and yet continue advancing in respect of a balanced and favourable relationship among our economies: that is, towards lasting solidarity.

Of course, another requisite is plurality of approach, and programmes and projects such as those rightly proposed in Central America's case by the authors of the article under review; but even more is it needful to find the bases for a new 'big push' whereby the stages already travelled can be left behind and new motive forces can be generated. That is the major problem; and it is at this point that Central America has stood since the earlier integration impulses began to lose force.

These impulses consisted mainly in: (a) the sudden expansion of the five countries' markets for any individual producer; and (b) regional import substitution, a road already taken by other Latin American countries. These two movements, furthermore, were inward-directed.

The first of them came about at a specific moment, in 1960, but by its very nature this *sudden* expansion could only occur once and for all. The secondary effects of the historic change which consolidated the five national markets in a single whole are still operative today, but the change itself cannot be repeated. As regards the second factor, the possibilities inherent in regional import substitution and the birth and expansion of manufacturing industry are far from having spent themselves, and a valuable joint development potential still exists: but, for one reason or another, its exploitation has been deferred again and again.

In these conditions, Central America cannot bemuse itself in contemplation of its own inward-directed co-operation, and there would be obvious advantages in carrying this co-operation on to the level of exports of manufactures to the rest of Latin America and to other areas: firstly, in view of the well-known fact that many industries are still affected by limitations of size, even taking due account of the Central American Common Market as a whole; and secondly, in order to bring about a significant change of attitude, since for too many years economic co-operation in Central America has been centred on patching up disagreements. A supremely important change would be heralded by any effort on the part of the Central American countries to extend the frontiers of their reciprocal co-operation

and join together in exporting to third countries, since such a policy would tend to unite them, and the movement would thus gain fresh impetus.

This would give rise to investment projects and programmes like those suggested by Cohen and Rosenthal, linked to the Central American Market and to that of other Latin American countries. The article by these two writers represents a valuable quest for solutions. It is an invitation to take another stride forward, and, for a while, to construct integration through projects of decisive significance for the economy: important enough, in fact, to lead in the course of time to the application of more general development and market expansion measures. This constitutes the 'multiple approach' which the authors also recommend. But the essential element in the approach consists in projects which by virtue of their importance and the diversity of the fields they cover form a sort of new programme of integration activities. The key point to settle is whether the region is in a position to mobilize the energies required for bringing such activities into being, without introducing major modifications in the political conditions surrounding integration.

It would appear from all that has been said that in order to enter upon this phase of achievement certain basic changes are needed. On the one hand, it would be necessary to pass from a phase of negotiation among the five countries to a phase of negotiation *vis-à-vis* others, and of co-operation with other countries too. Despite the setbacks suffered by integration in recent years, Central America is in no danger of losing its identity, but it could reaffirm that identity now in contact with others instead of merely within its own relative

isolation. This need to forge links and enlarge the scale of economic operations is not peculiar to the small Central American area, and holds good in varying degrees for the rest of Latin America.

But what would be the conditions in which relations could be established with other countries and regions in Latin America? It can be said straight away that they would have to be different from those prevailing in the past. Central America could not compete as a minor unit among major units unless it were able to count upon its own complete internal cohesion. The last five years have witnessed a rapid expansion of trade with the other Latin American countries, but on the basis of a relationship which is still ill-balanced, since imports do not find their necessary counterpart in the shape of exports.

Moreover, there are manifest symptoms that the Central American programme has lacked certain indispensable elements that would enable it to help in finding ways out of urgent national problems, to cope with particular combinations of circumstances, or to adapt itself to the rapid economic changes that have taken place in the last few years; not to speak of that veritable Achilles' heel of integration, inequality of benefits, which means that some profit by the movement and others gain little or nothing at all. Problems of this type are outside the scope of the so-called project approach, and until their solution is ensured they will make it difficult for suitable projects to be formulated.

Another requisite for progress seems to be closer linkage between integration efforts and some of the most crucial problems of national development, to further which is the function of such

efforts in a region like Central America, as was clearly envisaged from the very outset. And as long as they remain apparently remote from such problems as unemployment or income levels, they will meet with a cool reception, and will not kindle the same warm interest as national development policies. When the linkage in question is achieved, integration will no longer be a 'week-end exercise', as a well-known Central American once said, but will tend to enlist steady and continuing attention and support. To recover from the integration crisis, in a lasting sense of the words, is to enter upon active participation in the development problems of the countries and of the region. Here too the project approach needs the support of the more permanent integration instruments and policies.

The time may possibly come when projects and programmes of broad significance can be launched, and when this will be the best way of making progress in integration; but not in the midst of a climate of opinion which undervalues or disregards the integration movement, for if there is no faith in the strength of the integrated market, there will hardly be faith in the economic destiny of the activities established within it, nor will the future hold out motivating prospects. Julio Melnik, one of the best thinkers on the project problem --and on many others--, when bombarded with questions as to what could be done to encourage the emergence of projects, used to say with irrefutable logic that the *sine qua non* was a climate of development; without development no project could exist. And we might say that neither can projects be looked for without a climate of integration.

Again, the Central American economies viewed their early integration

efforts in a far-reaching perspective which clearly revealed the prospect of a stronger, more advanced region, where the quality of life would be better. Such farsightedness is still needed. This it was that made it possible to deal with major and minor problems which otherwise would have impoverished the environment and retarded the pace. One of the factors which influenced the 1969 crisis and the discouragement preceding it --a factor which entered into every sphere of integration-- was the gradual blurring of the great objective of unity combined with development. When it was lost sight of altogether, something very serious had happened: either reality could no longer provide sustenance for a constructive vision of the future, because the actual situation had deteriorated; or the programme had been flooded by the so-called practical spirit, with the result that negotiation, haggling and the commercial instinct thrust aside all forward-looking aspirations, replacing them by the 'hard facts'. These facts proved too bitter to be stomachable when they were impossible to reconcile or compare with the constructive view of integrated development that had hitherto constituted the horizon of the programme.

Consequently, in the set of instruments and policies which seem likely to be applied in the future, a hiatus can be perceived which it is to be feared projects and programmes alone will be unable to fill: a hiatus created by a lack of purpose which holds back integration, in the sense of economies which give one another functional support in their development and which all strengthen their own roots by their union. For this reason, it may be difficult at present to advance towards integration through isolated activities, and progress in that

direction can now be better envisaged as the product of a new impulse which will bring in its wake programmes and projects—even projects on a minimum scale— together with major policies.

The time is not ripe, therefore, for isolated project-based activities, because no fertile ground has been prepared for them, and because they would have no strength to transmit but would exhaust what they possessed in their own vital effort to survive. Indubitably, there is a considerable margin for action in the form of that 'quiet progress' to which Professor Hirschman refers, and which is a path that many Central American activities and forms of co-operation have followed. Moreover, the approach proposed by Cohen and Rosenthal incorporates a valuable point of departure that might facilitate its implementation, inasmuch as the coverage of the areas of action is strikingly wide, comprising not only integration industries and other productive activities, but also important lines of regional policy. This has a dimension that might promote new and highly necessary forms of co-operation among the countries. But at the same time the twofold need already indicated still exists: the need for fuller economic support, which, either by way of extra-regional exports or by any other means, will link up Central American activities and will be capable of giving integration a new overall impetus; and the need to reconstitute the indispensable climate of achievements and objectives.

The more thought is given to this matter, and the closer the scrutiny directed upon what has happened since 1969 and what is happening now, at the time of writing—in Central America and in the world economy—the more patent becomes the necessity of action bearing on the very pith and marrow of econo-

mic integration itself, not upon separate fragments of it.

To put it very briefly, the integration process must be more effectively related to the central motive forces of the national economies, to their purchasing power, to the region's natural resources (which are turned to very little account within the area) and to an export potential with fresh possibilities not only as regards the kind of goods exported, but also in respect of their destination, which could include new buyer markets both within Latin America and outside it. And when this is done, when integration is identified with these forces, it will tend to acquire new dimensions and operate on different levels, with vigour enough to find a way out of the present *impasse*, while strengthening all that already exists, not setting it aside.

This prospect of mobilization of action and policies throws into relief both the need and the basis for complementarity between the Central American Common Market and the Caribbean area, as well as the Andean Group and its member countries. What is suggested is not a general association, for all three systems are still in process of evolution, and have not yet taken their final shape. It would be unreasonable, in such circumstances, to attempt broad and complex linkage. But such a policy emphatically could be tried out in relation to important groups of products where the enlargement of the market could offer the incentive lacking today for the development of the corresponding productive activities; and not only markets could be pooled, but also financial and capital resources, organizational know-how, technology, and any other factors in respect of which the various regions are mutually complementary. This must not be left to chance,

however, but must constitute a line of policy followed by the five member countries. For chance, up to now, has been niggardly in promoting movements of such far-reaching importance.

It is an open question whether Central America would or would not be capable of undertaking this sort of natural prolongation of its own inward-directed integration, but at least the attempt could profitably be made. The Central American Common Market would find in it a compelling motivation that it lacks today. For in so far as it extends its exports to third countries, it will at the same time be obliged to raise the pitch of its economies to more efficient levels of industrial production. And this too would be another major objective which integration could bring within reach, just as in the past it wrought a notable change for the better in the production conditions prevailing when the process began.

It is sweeping changes such as those described that could afford the bases for the new 'big push' referred to earlier, whereby the stages already completed could be left behind and new motive forces could be generated. To that end, whatever specific form the 'push' may take, both projects and policies are needed. For projects will not be either formulated or executed by themselves, without the broader-based support of integration policies.

Moreover, in the Central American countries a high degree of reciprocal interest still attaches to the economic destiny of each individual one, since integration has advanced far enough to make them interdependent. But it is an unbalanced interdependence, at least as regards the country whose development is lagging farthest behind. In the failure to bear in mind or grasp this circum-

stance the explanation of the integration crisis lies, just as, in the future, understanding and observance of the principle involved will account for the reactivation of the process.

On the road towards normalization of the Central American Common Market there would be no question of enabling the countries that have gained less than others, or nothing at all, to recoup the benefits they previously had to forgo; the idea would be to construct their own source of profit and expansion within the normal operation of the system. Nor, by its very nature, will the balance sought result from occasional action, or sporadic compensatory measures. A set of economic interrelationships needs to be established that will link up the countries in such a way as to create a situation of shared prosperity, in which an adequate proportion of the impulse received by the country or countries whose growth is most dynamic will be commuted into demand for goods from countries that have not yet attained the same degree of dynamism.

For this purpose, the establishment of a network of interrelated industries manufacturing final production goods and intermediate goods in the various countries is a worth-while objective which could mobilize a great deal of energy in the Central American area, and create the right conditions either for sharing the prosperity generated by integration itself or for mitigating and offsetting whatever repercussions of recession and instability in the world economy may affect the region in the future. Needless to say, the economic transformation and the consequent progress of the more backward countries is conceivable, and possible to achieve, only over the long term; but unbalanced development is an immediate problem

which, unless it is tackled efficiently from the outset—as could be done now in a new phase—will gain increasing sway over the integration process.

The next few years may also witness an effort to assign integration a role more closely associated—as would seem appropriate to the degree of maturity that the process has already attained—with one of the principal development problems by which the countries are beset. The forces roused by integration could be channelled into the deliberate creation of new jobs, for which special financing could be used, both domestic and from other sources; and advantage could be taken of the regional market and the rapprochement with other regions and countries to support an employment-creating programme on a large enough scale to make itself definitely felt as a product of the integration

process on which it is based. Admittedly, the pace of the process has slackened. But it would be a mistake to conclude that consequently no action can be taken in the field of employment. For the loss of speed is also due to the detachment of integration from this and other problems and possibilities—a defect which must now be corrected.

Such lines of action may or may not prove feasible, and it would be unwise to oversimplify all that they imply in terms of effort and performance capacity. Be this as it may, however, there is a permanent and basic meaning of integration which calls for broad movements of the kind indicated if progress is to continue. And it is salutary, too, to recognize this fact, so that full advantage may be taken of the strength still displayed by the integration process, which, in the midst of an abnormal situation, is continuing to produce undeniably potent effects.

### *Comments by Albert O. Hirschman*

Issac Cohen Orantes and Gert Rosenthal have written a rich, thoughtful and constructive paper about the difficult process of economic integration in Central America. It seems to me that they might have used as an epigraph for their story the following paragraph by the Polish philosopher Leszek Kolakowski:

“The simplest improvements in social conditions require so huge an effort on the part of society that full awareness of this disproportion would be most discouraging and would thereby make any social progress impossible. The effort must be prodigally great if the result is to be at all visible. . . . It is not at all

peculiar then that this terrible disproportion must be quite weakly reflected in human consciousness if society is to generate the energy required to effect changes in social and human relations. For this purpose, one exaggerates the prospective results into a myth so as to make them take on dimensions which correspond a bit more to the immediately felt effort. . . . [The myth acts like] a Fata Morgana which makes beautiful lands arise before the eyes of the members of a caravan and thus increases their efforts to the point where, in spite of all their sufferings, they reach the next tiny waterhole. Had such tempting

mirages not appeared, the exhausted caravan would inevitably have perished in the sandstorm, bereft of hope."<sup>1</sup>

As I have said elsewhere, the moral of this fine passage is twofold: in the first place, the effort of the caravan would never have been forthcoming had the required social energy not been generated by the mirage. Secondly, in spite of the comparatively meagre result, the effort was definitely worth while since it alone permitted survival.

Both conclusions are highly applicable to the Central American experience with economic integration. That experience would not have been set in motion had it not been for the Fata Morgana of full economic unification and of its obvious implications in the political realm. Secondly, even though movement stalled at a considerable distance from that goal, the result justified the effort expended—in the Central American case it achieved nothing as dramatic as survival (as in the story of the caravan), but it can certainly be credited with having made an important contribution to the economic growth of the region over the past twenty-five years.

When the Central American experience is interpreted with the help of the Kolakowsky metaphor, another inference or 'lesson' can be drawn: there are special difficulties in visualizing in advance *intermediate* outcomes, be it the 'tiny waterhole' or the present fragmentary character of economic integration in Central America. The reason is that "man may simply be unable to conceive of the strictly limited, yet satisfactory, advances, replete with compromises and

concessions to opposing forces, which are the very stuff of 'incremental politics' as well as the frequent result of ambitious socio-economic development moves".<sup>2</sup> In other words, the goals we set ourselves are often utopian not so much for the purpose of galvanizing social energy, but because goals are part of the future and the future can only be visualized in very simple terms, without qualification and fine nuances. The present state of Central American integration could never have been specified in advance as an *objective*. It is the complex and contradictory, yet useful *outcome* of an action that had a far more simple objective and, once again, this outcome could not have been achieved had that objective not been set. Naturally, the distance between the actual outcome and the objective gives the impression of 'fracaso' or of 'crisis'. A correct understanding of the normal, to-be-expected relationship between *objectives* and *outcomes* of social action would thus make for less 'fracasomania'.

As Cohen Orantes and Rosenthal imply, the time may have come to accept the outcome instead of continuously lamenting it as a failure. That would make it possible to conceive of further practical moves on the basis of the present situation. In this connexion the observations about the tendency of import substitution *within* the Common Market are of particular interest. I had long thought that one pattern of industrial integration that would make sense in Central America would be for one country to set up a new factory (say, cement) that would export to the neighbouring countries part of its production

<sup>1</sup> Leszek Kolakowski, *Der Mensch ohne Alternative*, Munich, R. Piper, 1961, pp. 127-128. (My translation from the German translation.)

<sup>2</sup> A.O. Hirschman, *Development Projects Observed*, Washington, D.C., The Brookings Institution, 1967, p. 33.

during the early years while the domestic market was not yet large enough to absorb all of its output. Later on, it would be another country's turn to build the next cement mill which would also export for a limited number of years, and so on. This sort of practical project planning can make a useful contribution once the 'idealistic' phase has been exhausted; but it can do so only after one has made one's peace with that fact, at least for a while, pending the next big push.

It is instructive at this point to compare the Central American integration experience with recent policy-making in the United States. Not so long ago Anthony Downs attempted to analyse what he calls the 'issue-attention cycle' in American policy-making by distinguishing the following phases of a policy problem, such as environmental pollution:

(1) The 'pre-problem stage' during which the problem exists all right, but not much public attention is paid to it;

(2) Then comes "alarmed discovery and euphoric enthusiasm". The problem is considered *a priori* fully solvable "if only we devote sufficient effort to it";

(3) In the next phase, it is realized that solving the problem may be costly and goes against the immediate interests of large and influential groups of people;

(4) As a result of this realization, there is then a gradual decline of intense public interest, which is helped by the providential appearance of another problem that will occupy the limelight;

(5) Finally, there is the 'post-problem stage' which differs from the pre-problem stage in that a number of

efforts and agencies that have been set up to 'solve' the problem in Phase Two continue to exist and may actually make some quiet progress. Moreover, once the problem has passed through the cycle, it will continue to receive a modicum of public attention.<sup>3</sup>

This is obviously a rather ironic scheme; it reflects the author's irritation with the spasmodic policy-making style lately prevalent in the United States. In comparison with this North American style it appears that Central America has not done so badly with its common market experience! It fits the Downs pattern rather well, but improves upon it since a number of important advances were actually achieved in phases (2) and (3) when the problem was first analysed and acted upon. In the Downs sequence the only phase with some positive accomplishments is the last one when the 'problem' has reached the 'post-problem stage'. At this point, quiet progress becomes possible because the institutional framework now exists for dealing pragmatically with the matter. This seems precisely the present situation in Central America. The paper by Cohen Orantes and Rosenthal is in itself a strong indication that the reasonable, incremental phase (5) is at hand, and it also contains the sort of practical proposals characteristic of that phase.

<sup>3</sup> Summarized from "Up and Down with Ecology - the 'Issue-Attention Cycle'", *The Public Interest*, N° 28 (Summer 1972), New York, National Affairs Inc., pp. 38-50. With respect to point (4), Downs turned out to be prophetic, as in 1973 the energy problem displaced the environmental pollution problem from the headlines.



## Development and educational policy in Latin America

*Aldo Solari\**

From the end of the Second World War to the close of the 1960s, the idea prevailed in Latin America that educational development was an indispensable requisite for the successful promotion of economic growth and distributive justice. Although opinions differed as to the level that should be given priority—primary, secondary or higher—all agreed that through the expansion of the formal education system a state of affairs would be reached that resembled the picture presented by the developed countries which served as models.

But some years ago doubts started to be cast on the validity of these assertions respecting the economic and social effects of educational development; since then, traditional and 'developmentalist' ideas alike have begun to totter, and new utopias have come to the fore whose aspiration is to create a system of non-formal education, accessible to all, egalitarian and life-long. The purpose of the article is to present a critical analysis of the utopias, and to show that although their proposals have some positive features they cannot constitute a satisfactory basis for the re-orientation of the educational system in Latin America.

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## 1.

### Legitimizing principles

1. Any policy implies both a foundation in fact—sound or mistaken—and a utopian dimension. The particular weight of each of these two components and the way in which they are combined vary enormously; nor is it even always easy to distinguish between them. Educational policy is certainly no exception to this general rule, although the utopian element is probably more clearly present in it. Since the beginning of the 1960s diverse fundamental principles have been suggested for educational policies in Latin America, as well as widely varying means of attaining their objectives, and different utopias for society in general and education in particular. The hallmark of this process seems to have been a tireless search for novelty, with the result that often supposedly new proposals masked familiar and tested notions which had fallen into neglect or which their proponents believed themselves to have discovered. Today, following exhaustive criticism of the ideas accepted for a time, new and more attractive utopias are being constructed. All these real or apparent changes justify a historical analysis of the fundamentals of educational policies over the last twenty years, an attempt at a critical review of the different proposals and an assessment of the present state of our knowledge.

This preliminary and partial investigation is centred on the basic principles and assumptions underlying educational policies, without going into the details of the policies themselves or the specific problems of carrying them out. Again, since the models recommended have originated outside the region, this article may be considered, from another angle, as a study of the heteronomy of our educational policies.

The importance of such policies needs no urging. Alike in government statements, in the reflections of intellectuals and in society as a whole, education appears to be one of the values most highly prized in Latin America. Social demand for it has grown enormously since the Second World War, and the expanding educational system has become one of the most important sources of employment in every country. Governments concern themselves with the education problem not only because of ideological convictions but because of the political importance of what they do in this field: the support they gain or lose by it.

Obviously, too, this social demand can be satisfied in very varied degrees, depending essentially on the real power structure of the different social groups, and whatever basic principles and utopian ideals are postulated, structural conditions raise insurmountable obstacles to the attainment of the declared goals.

The structural factors just mentioned are ever-present in the background of this article.<sup>1</sup> We are not primarily concerned with them, however, but with the different models put forward since the Second World War and the stages which can be distinguished in the evolution of the fundamentals of educational policies. First, however, what may be called the traditional model in Latin America must be described in brief and somewhat rough outline.

<sup>1</sup> The present writer has analysed them on many occasions. See *Estudios sobre educación y empleo*, Cuadernos del ILPES series, Santiago, Chile, 1973; (with Néstor Campiglia and Susana Prates), "Education, occupation and development" in *International Social Science Journal*, Vol. XIX, No 3, Paris, UNESCO, 1967; "Educación y cambio social" in C. Arnold Anderson *et al.*, *Educación y cambio social*, Buenos Aires, ECO, 1971.

2. An analysis of this kind always runs the risk of lapsing into over-simplification. Some assumptions are common to many approaches, and the need to highlight others that are distinctive of any one particular conception should not cause its complexity to be forgotten. Such simplification is occasionally almost inevitable, however, within the limits of an article.

3. It is especially common in respect of what can be called the traditional ideologies in the field of education. The great reformers of the last century, Sarmiento or Varela, for example, view education as a good in itself; human beings cannot develop fully except through education, just as they cannot develop fully except in a democracy. The latter presupposes the existence of citizens, which only the educated can properly be. A basic conviction of the believers in enlightenment is that the progress of education is alone capable of generating true political and social progress, and, furthermore, that once the former has been brought about, the other two will inevitably follow.

Education, then, is every human being's right, and it is the duty of the State to provide it. Those who wish to contrast this viewpoint with later and with relatively recent ideas frequently succumb to the temptation of adding that it attached no importance to the economic role of education. This is not so, however. One of the assumptions of this concept is that education contributes to the increase of wealth and that better educated peoples possess more economic goods. Economic development is not referred to by that name, of course, but its positive relationship with education is asserted all the same in different words. What happens is that for some of its proponents this argument plays a less important role than the other, but there can be no doubt of its

meaning that only education can free us from economic hardship, just as it will free us from political hardship.

What kind of education, though? The education which the State has the duty of providing to all citizens is what today would be called basic, and was then called primary. The great fight of the reformers is to universalize education at this level. Its priority follows naturally from the initial assumptions: there is no true citizen body unless education is universal, no wealth without people who have a minimum educational background common to the entire population. Besides being doctrinally logical, the universalization of primary education is what is in fact offered by the society taken as a model, i.e., the North American, and also by European society. On the other hand, no particular importance is attached to State action in respect of intermediate and higher education, because it is taken for granted that the expansion of these is secondary to the universalization of primary education.

This was not the case in actual fact, of course, and Sarmiento lived long enough to express his concern because secondary education was expanding very rapidly, long before primary education became universal.<sup>2</sup>

The confusion about the opinions of the early reformers stems from the fact that, in the course of the subsequent process, the economic importance of education is completely cast into the shade, and the propositions regarded as the successors of those initial concepts disappear almost entirely, in favour of

<sup>2</sup> On the historical development of this important problem in Argentina, see the excellent book by Juan Carlos Tedesco, *Educación y sociedad en la Argentina, (1880-1900)*, Buenos Aires, Editorial Pannedille, 1970.

the arguments which we would describe today as based on human rights.

4. When the idea of economic development, and the need to promote it actively, gained ground in Latin America after the Second World War, its theorists could not fail to take up the problem of education. There are a great many shades of developmentalism, a term often used pejoratively.

A reproach common to them all, and repeatedly levelled at developmentalism in recent years, is the 'economism' of its arguments. This criticism is unfair to its better representatives. The theoretical position may be unsound, but it is clearly tied to a whole ideology on democracy and political stability as products and at the same time bases of economic development. Suffice it to recall Ahumada's words: "... it may be considered that the goal of programming is to attain the highest growth rate compatible with stability".<sup>3</sup> Admittedly —but logically enough, since the main concern is the economic problem—, every object of analysis is approached from the economic standpoint, which is valid but limited.

Of course, education is not a priority concern comparable to such areas as investment, saving or industrialization. In the first important CEPAL documents, for example,<sup>4</sup> neither education

<sup>3</sup> See Jorge Ahumada, *Teoría y programación del desarrollo económico*, Cuadernos del ILPES series, first edition 1967, p. 24 (in Spanish). This contains the lectures given by that distinguished economist as from about 1955, and the context shows clearly that he is referring to political stability.

<sup>4</sup> Such as that of Ahumada quoted in the preceding footnote, and CEPAL, *Analyses and Projections of Economic Development. I. An Introduction to the Technique of Programming* (E/CN.12/363), United Nations publication, Sales No: 55.II.G.2., June 1955.

nor social investment in general are considered. Later studies make good this omission,<sup>5</sup> and view the relationship between productive investment and social investment as one of the central problems. The priorities do not change, however. The reader is cautioned that while the latter is investment it is nevertheless by its nature close to consumption expenditure and therefore should not exceed a certain level so as not to slow down the process of development, i.e., of growth of the per capita product.

This view is the consequence of adopting a particular economic theory, but not the inevitable result of starting from the standpoint of the economy, from which very different conclusions can be and have been reached. Adam Smith, Alfred Marshall and many others have insisted on the importance of education in the formation of human capital and the decisive nature of the latter in the workings of the economic system.

In any event, the initial view of the CEPAL economists had little effect on educational policies because it was very soon replaced, even in the writings of the same authors, by the approach considered in the next section.

5. The idea of education as a factor in economic development was far from new in economics, but it acquired fresh impetus as the result of a series of studies, and had a powerful impact in Latin America, as in the rest of the world. Education was regarded as an investment which increased the growth rate; thus it was no longer a costly effort which raised

problems for the rapid development of societies by limiting their capacity to invest. It was seen instead as an investment in manpower which became one of the basic factors in the generation and acceleration of development. This discovery seemed to solve all problems, since apparently whether one started from the standpoint of human rights or from that of the imperatives of economic development one arrived at the same conclusion: education was of priority status. As this coincided with both public conviction and political necessity, the result was a convergence rarely evidenced in history; and indeed expressions of wonder and pleasure at such harmony were not wanting.

Educators regarded with mixed feelings the invasion by economists of a terrain which they had always defended as strictly their own. Nevertheless, the predominant reaction seems to have been gratified acceptance of so important a principle, which warranted increases in the education budget that they had always fought to obtain. In this respect, the relationship between economists and educators has not reached the state of paranoia referred to by Emmerij<sup>6</sup> in the context of the developed countries, although some elements of it do appear when the economists start to intrude upon the domain of the internal performance of the educational system.

As might have been expected, however, the question is not quite as simple as all that. The implications of both arguments are the same in part, but not necessarily in relation to all the problems that arise in determining the objectives

<sup>5</sup> CEPAL, *Economic Development, Planning and International Co-operation* (E/CN.12/582/Rev.1), Santiago, Chile, United Nations publication, Sales No: 61.II.G.6., 1961.

<sup>6</sup> See Louis Emmerij, *Can the School Build a New Social Order?*, Amsterdam, London, New York, Elsevier Scientific Company, 1974.

and priorities of educational policy. If the point of departure is the idea that education is an investment, it will be essential, in view of the limited resources available, to invest in such forms and types of education as will ensure a higher return. There is no reason why these priorities should necessarily conflict with those deriving from the concept of human rights, but neither are they bound to be compatible, particularly if there are many ways of interpreting the implications of the two sets of principles; and such tensions and conflicts existed, as will be seen later.

6. First, however, a point too impor-

tant to be passed over is that the concept of education as an investment creating human resources for development emerged when the idea of planning had gained considerable ground in Latin America. It is understandable that these two ideas should go together. If education is an investment, and mainly a public one, if resources are scarce and if their use must be rationalized to achieve development, education must be planned, and the educational plan must form part of the overall plan. Thus there came into vogue educational planning and human resources planning, which are not exactly the same concept, although some may confuse them, but which are obviously closely linked.

## 2.

### What action should be taken?

1. Given the basic premises referred to above and the manifest inadequacy of the educational system, the question is what policy should be adopted. A review of the solutions proposed not only serves as a reminder of past history, but determines how far the earlier ideas were too general, inasmuch as they concealed many divergences, and to what extent they had certain elements in common.

2. The best course is to start with the latter. An inevitable assumption is the existence of a model, i.e., that offered by the *common elements* of the *present* system in the developed countries.

The term *common elements* is italicized because, taking an abstract view of education-development, it is possible to show that certain basic characteristics are present in all developed educational systems; from that standpoint, whether a

system is capitalist or socialist is immaterial, as most writers affirm or take for granted.

The word *present* is italicized because, although a process of change is proposed to bring Latin American education closer to the model and the need for this process to be conducted by stages is recognized, the starting-point for defining it is also an abstract, a-historical conception: so much so that no account is taken of the characteristics of the historical process whereby the developed societies arrived at the present educational system, or the Latin American countries established the system they now have. This omission, which in theory may be surprising, is perfectly logical. If their evolution had been duly considered, it would have been realized that the two processes are so different that the assumption of a common point

of arrival is indefensible as such, since neither the point of departure nor the stages on the road are similar.<sup>7</sup>

3. A second common element is the fact that attention is concentrated on the formal educational system and on the identification of its shortcomings in relation to the model. The first of these features coincides with a long-standing tradition in Latin America, where all expectations are centred on the formal system. Non-formal education rarely appears in reflections on the subject, and when it does it is considered mainly as an obstacle to the changes desired. Underlying this idea is the following postulate: the disparity between the overall cultural levels of developed and developing societies is even more marked than the difference that exists *or may exist* between their educational systems. (If the disparities are in fact equal, it is assumed to be easier and quicker to improve the level of the educational system than that of the social system in general.)

The logical conclusion is that in developing societies much more can be expected from socialization in the school than from socialization in general in terms of its contribution to change and development —which, incidentally, expressed in simpler language, is a very old argument. The non-formal educational media, therefore, in so far as they are considered to be more dependent upon spontaneous socialization mechanisms and the family, are dangerous instruments of conservation rather than

instruments of change. The logic of this whole argument, however, is merely implicit. Some of those whose attention is centred on the school system would perhaps disagree with it, and more will be said about its nature later on.

More decisive reasons for the concentration of attention on the formal system are that historically it has always been the most important; that it may be credited with a capacity for relatively rapid change if an adequate policy is adopted; and, lastly, that it lends itself more readily to quantification and planning than the other education media.

As regards the second aspect, namely, the identification of short-comings, the essential requisite for determining them is to compare the educational pyramids in developing and developed countries, or present rates of access to the different levels, or both. Obviously these and other ancillary methods lead to the discovery of fairly pronounced differences at all levels, which need to be overcome. The question then is what objectives should be given priority in the strategies pursued. It is on this point that opinions differ widely.

4. A possible objective might have been to improve all levels so as to approach, either gradually or rapidly, a situation close to that of the developed countries. Few, particularly in the field of economics or planning, accepted this, probably for the following reasons.

First, the shortage of resources made so ambitious a project impracticable in the majority of the countries. Secondly, in view of this shortage, it was only natural that investment in education should be channelled into those levels or branches of formal education which produced the highest economic returns, and considerable differences of opinion

<sup>7</sup>As the present writer has already endeavoured to show. See "Algunas paradojas del desarrollo de la educación en América Latina y su influencia sobre la universidad", in *Estudios sobre educación y empleo*, Cuadernos del ILPES series, Santiago, Chile, 1973.

existed among the most noted economists as to which those branches were. If on the one hand the need to adopt priorities was unanimously accepted, on the other hand these discrepant views combined with other factors to create a remarkable degree of confusion, on which it is worth while to dwell here.

According to one current of thought, a comparative analysis unquestionably shows that secondary education is the pivot of development and that investment in this area yields the best return. Almost always, although not inevitably, this conviction is accompanied by the idea that in the developing countries the notable results of investment at that level can be fully achieved only if the traditional academic education is abandoned in favour of a system more in keeping with development needs, which should be of a polytechnic or diversified nature, should provide training for the labour market instead of the university, etc. In other words, investment in secondary education should be accompanied by an instrumental and utilitarian concept of education at this level.

Setting aside for the present the intrinsic merits of the theory, what must be noted is that in addition to any it might have, it was preached on other no doubt more important grounds. In the first place, criticism of the traditional secondary education had long had influential adherents in Latin America: so long, indeed, that a utilitarian conception not very different from that described had been proposed and in some cases introduced in the region at the end of the last century, that is, before the existence of the secondary education that was now being criticized as traditional. Since these attempts had generally been forgotten, however, the voice of the existing criticism enthusiastically

hailed as a novelty a concept that was backed by the opinion of trained economists. More weight, perhaps, was carried by the fact that for the middle classes secondary education had always been of fundamental importance, and anything that could be done for it, in whatever guise, was welcome. Lastly, if the new utilitarian approach had some elements which conflicted with their highest expectations, it was not so very difficult to adapt or distort—whichever term is preferred—the former in such a way as to satisfy the latter. In this its supporters were perfectly right, as became evident later. To clinch the matter, this theory became the official policy of the World Bank and determined its loans to the education sector for several years. As everyone knows, the rationale of a theory becomes singularly compelling when it is backed by so rational an instrument as money.

Concurrently, some specialists maintain that the developing countries' great lack is high-level personnel. Productivity cannot be expected to increase if, as the figures show, percentages of high-level personnel in the various sectors of activity in Latin America are minimal compared with those recorded in the developed countries. What is more, an immense proportion of high-level occupations is filled by persons who have not only had no higher education, but have not even completed the secondary—nor, in many cases, the primary—cycle. Such low qualifications in those conducting the economy are incompatible with development; conversely, if they were higher they would have a significant dissemination effect. The same may be said of this élitist theory of development as of the one described before: it had substantial support irrespective of its intrinsic merits. In Latin America the

social groups with access to the university and those that make their living in it or within its orbit have a recognized political influence. Moreover, they had already obtained or were obtaining an increasing proportion of expenditure on education for the universities, so they could not fail to look favourably upon a doctrine so manifestly in harmony with their own interests. An important factor in this case too was that IDB adopted the doctrine as a basis for its policy on loans to the sector. Once again the rationale became more rational . . .

Lastly, nearly everyone accepted in theory the priority of literacy campaigns and primary education; but although it was always stated to be important, it was seldom presented as excluding the priorities referred to above. The reasons for this are not hard to understand. In the first place, economists and human resources specialists rarely attached priority to elementary education; secondly, if elementary education was so backward in Latin America it was because the groups which might in theory have supported firm priority for it had very little power; and, thirdly, the only external backing came from UNESCO. This had two limitations: first, that it was not as exclusive as the support given by the World Bank and IDB; and secondly, that since UNESCO is not a Bank, its influence as regards the possibilities of obtaining loans was very indirect, though helped by the fact that AID assigned a certain priority to primary education.

5. The situation thus summarized in very broad outline is, to say the least, paradoxical, and merits some additional comments.

First, on the curious, though not complete, agreement of the international agencies, particularly banks, with the

theories in vogue, while they all adopted different priorities. In fact, whether or not by *ex profeso* arrangements, there was a kind of division of labour among the financing institutions, some giving special attention to secondary education and others to higher education. Secondly, on the no less curious and, in this respect, complete agreement with regard to education between the financing institutions and the strongest internal pressure groups in Latin America, always in favour of the expansion of secondary or higher education: one of many examples that are worth taking into account in considering the problem of external dependence, in which internal groups invariably mediate.

The paradox is that two such different priorities could not seriously be adopted at the same time, but by virtue of the above-mentioned forces they were. In practice, the governments received loans for secondary education on the basis of scientific demonstrations assigning priority to education at this level, and the universities—which, although they could not officially accept loans without government approval, to a great extent availed themselves of their autonomy to act on their own account—obtained them on the basis of other no less scientific demonstrations that the best possible course was to give priority to higher education. Thus, scientific principles and financial needs were, to all intents and purposes, equally satisfied.

6. It must not be forgotten that usually at the core of these conflicting internal and international pressures, of so many different doctrines on how best to orient the development of education, was the supposed Grand Master of its rationalization, the educational planner. Nowadays, educational planners are often heard to

say that their plans either remained on paper or were unrealistic, etc. Others have found that they were unrealistic because they were of too global a nature and were not broken down by regions, a truly reprehensible omission in the present phase of development planning ideas (or fashions?).

All these justifications, and others which are not given here, once again bear witness to the fertile imagination displayed by technocracy in inventing self-criticisms which at the same time demonstrate that new and supposedly more efficient technocratic action will demolish the errors of the past and build a promising future.

The most striking fact, in my view, is not that their plans should have failed or been of little use, but that in the existing circumstances they should have been able to formulate plans at all. Obviously, they managed to do so by making the plans as unlike as possible to what a plan was in theory, as has been amply demonstrated.<sup>8</sup>

7. Much more important than the planning situation was the fact that, as might have been expected, educational policy was extraordinarily confused as regards objectives and priorities. This confusion stemmed from the main causes indicated above. In practice, the chief victim was primary education. There cannot be said to have been any sweeping changes in policy towards it; it was already the poor relation of the system and continued to be such; but the situation worsened because the new priorities assigned to secondary and higher education by the

<sup>8</sup> See, *inter alia*, *Education, human resources and development in Latin America*, United Nations publication, Sales No: E.68.II.G.7., 1968, pp. 214 *et seq.*

financing institutions were reflected in substantial loans to many countries, with their corresponding counterpart expenditure, which raised the proportion of the educational budget allocated to those levels, at any rate at the stage of implementation, even if the estimates were still the same as in the past. In secondary education, for example, World Bank loans for establishing polytechnic institutes, under different names in the various countries, were tied to the recruitment of high-level teaching personnel, and other requirements of a different kind, which, in addition to the maintenance of large-scale buildings and equipment, meant much higher expenditure per student than is usual in secondary education of the traditional type. Thus the considerable difference between the direct costs of the first two levels was accentuated, and the primary-education deficits became much more chronic, because of the imperative need to keep up the counterpart payments against international loans so as not to forfeit the chance of obtaining new ones.

Accordingly, the only clear-cut result was a further postponement of the needs and requirements of primary education on a universal basis and, therefore, a *de facto* conflict with human rights in respect of education. This was far from being a novelty, however; it merely strengthened the historical trend.

8. Undeniably there was, in spite of appearances, a certain consistency within the recommended policy itself and between it and the distribution of power in both the internal and the international society. No radical changes could be expected in education because no radical changes occurred in society either, or the changes that did take place required only simple adaptations of the educational

systems. In this sense, the proposals for modifying the system to a moderate extent were functional in relation to the power structure existing in most of the countries. Barriers were erected which, in practice, prevented a large proportion of the population from ever completing their primary education, but this did not create too many problems when most

agricultural occupations did not require even that amount of schooling. Secondary and higher education were strengthened partly in response to the pressure of social groups and partly to meet the relatively limited need for manpower with training at those levels. The policy faced other problems, however, which were shortly to come to the fore.

### 3.

## The collapse of developmentalist educational policy

1. The ideas briefly reviewed above are still extant and will continue to be so for some time. However, the short duration of their predominance is both surprising and noteworthy. Even the most generous estimate would date the coming into vogue of such ideas on investment in human capital, educational planning, human resources planning, concentration on priorities within the formal education system, etc., no earlier than 1955, and would put the end of the fashion at the close of the 1960s. In barely 15 years these doctrines gained influence, prevailed as far, as is possible in such a field, and came to be the target of fierce criticism, which in its turn increasingly swayed opinion.

Thus, the triumph of the doctrines described was so short-lived that no country had time to apply them systematically, much less to test, even fairly satisfactorily, either their wisdom or their errors. They carried the day before it was possible to ascertain their degree of rationality and validity in the context of Latin America, and were in full retreat before any progress had been made in this direction or in determining the degree of rationality or validity of the criticism levelled at them.

The basic reasons for so swift a triumph are the same as for so swift a defeat: the evolution of ideas on educational policy in the central countries and the new power structures in Latin America.

The central countries witnessed a major expansion in their educational systems, particularly at the secondary and higher levels, because needs at the primary level had long since been catered for, and investment in human capital increased more than proportionally to the expansion in question. In October 1961, at the OECD Conference in Washington, a document was presented on targets for education in Europe in 1970,<sup>9</sup> which postulated hypothetical 'high' and 'low' rates of increase in educational expenditure. The 'high' rate was in fact surpassed by all the countries; Spain and Portugal, although they exceeded it least, did so by 10 per cent. The main reasons behind this trend were

<sup>9</sup> See Ingvar Svennilson, Friedrich Enning and Lionel Evin, *Targets for Education in Europe in 1970*, paper presented at OECD Conference on Economic Growth and Investment in Education, Washington, October 1961.

that during the decade the real salaries of teachers rose at rates higher than those forecast and, in particular, that the number of students was much larger than had been assumed in the projections.<sup>10</sup>

In the United States, moreover, for the first time in the history of mankind more than half an age cohort completed the secondary cycle, and in 1971 80 per cent entered college. In this respect the theories on the influence of investment in education on economic development, etc., whatever their intentions, serve to justify a socio-political process which is acquiring overwhelming momentum.

2. In the first half of the 1960s, various writers tried to show that an increase in investment in education would raise economic growth rates, using essentially two procedures: the so-called residual method, and calculation of the rates of return. In the first case, the effect of investments in physical capital is directly estimated, and the resulting growth rates are compared with the real growth rates of the economy; when the former are deducted from the latter, an unexplained residue is left that is attributed to the training of human capital, in which formal education plays an important role, although one which it is impossible to evaluate. The second method attempts to make a direct estimate of the returns on investment in education by comparing the average incomes of persons at different educational levels, and calculating the interest on capital invested in obtaining further education as represented by the income differentials.

<sup>10</sup> See Louis Emmerij, *Can the School Build a New Social Order?* *op. cit.*, chapter I.

The conclusion reached by the first method is that during the first half of the century between 42 per cent, according to some, and approximately 66 per cent, according to others, of the increase in the product per employed person in the United States can be ascribed to the residual factor; the second method gives estimated rates of return ranging from 8 to 12 per cent, which are favourable compared with yields on capital.

The second major hypothesis in vogue in the early 1960s was that higher expenditure on education would make for less inequality in income distribution. Inasmuch as opportunities would be given to the less privileged social groups, the rates of return would tend to become more uniform among the various social strata.

This theory, regarding which, in point of fact, several economists voiced well-founded doubts from the very outset, enjoyed a certain degree of currency and was heavily relied on as a basis for expansionist public policies in the education sector, either on its own account, or through the support it gave to human rights considerations. From the end of the 1960s to the present day, each and every one of its aspects has been called in question in a process which is spreading to Latin America with relative rapidity.

The calculation of the residual factor is based on weak premises. The residue comprises a large number of elements, and there is no way of determining what part of it ought to be attributed to formal education. Presumably the part in question is sizable; but it is impossible on that basis, and on that alone, to give education priority over other fields of investment. Such important parameters as entrepreneurial capacity and the

technology variable are included in the residue, and it is easy to understand the scepticism with which many economists have always eyed this method of estimating the role of education.<sup>11</sup>

The argument as regards rates of return on investment in education seems better founded, but it has also been the object of severe criticism. Some have alleged that additional years of education do not really mean higher productivity at work, and it has even been declared that, in the final analysis, we do not know how far the preference for educated workers is rational or irrational.<sup>12</sup> An assertion of this nature, which is linked to the screen hypothesis (namely, that education really serves as a screen to assist entrepreneurs in making their selection, but that productivity depends on other factors), is highly controversial and has been widely discussed. Without going into the intricate arguments currently bandied about in this connexion—an impossible task here—such a contention means that certain results are open to question which would have seemed indisputable ten years ago.

More serious still are the efforts to show that investment in education has not had the equalizing effect expected of it. The Coleman Report,<sup>13</sup> the book by Jencks mentioned in a footnote above,

<sup>11</sup> For a scintillating criticism see Thomas Balogh, *The Economics of Poverty*, London, Weinenfeld and Nicolson, 1966, pp. 87-107.

<sup>12</sup> See Christopher Jencks *et al.*, *Inequality: A Reassessment of the Effect of Family and Schooling in America*, New York, Basic Books, 1972, p. 183.

<sup>13</sup> See James S. Coleman *et al.*, *Equality of Educational Opportunity*, Washington, United States Department of Health, Education and Welfare, 1966.

and countless other works on the subject have sought to demonstrate that the relative inequalities between groups tend to remain constant, and that investment for expanding education and establishing special policies for the underprivileged is totally unrelated to the benefits which they obtain, the reason being—*inter alia*—the powerful influence of outside factors on performance within the school system.

To sum up, the conviction that investment in education is a good thing is not disappearing, but the belief that it is in principle a priority matter has been shaken to its foundations. The developed countries invest higher proportions of their gross national product in education than do the developing countries, but how can one know whether this is not an effect rather than a cause of development?

3. Of course, doubts as to the importance of the role of education as an investment reflect on the possibility of determining the priority to be given to specific levels. If it is difficult to reach valid conclusions on the problem as a whole, it is even harder to do so on parts of it. In addition, structural situations are so varied that it appears scarcely possible for any generalizations to hold good as regards which levels play a more significant role in development, and under what conditions

4. No less important than the foregoing are the reservations concerning the classic conception of human resources planning. The OECD's Regional Project for the Mediterranean was the model that exerted most influence in Latin America, and, as a result, the criticisms levelled at it, particularly those of

Hollister,<sup>14</sup> greatly undermined the confidence previously felt in this field. Doubt is cast on the very possibility of defining in quantitative and qualitative terms the manpower requirements for achieving a specific level of development, or of determining how to organize a formal education system which will produce a labour force with the characteristics deemed desirable. It is also maintained that widely varying combinations of skills can produce the same or analogous results in respect of productivity; that consequently highly different expectations as regards the product of the educational system can have the same outcome; and that, lastly, no exaggerated claims can be made as to the relationship between formal education and employment, which is much more tenuous than is assumed in the classic approach to human resources planning.

The idea which has gained the most ground is that while highly flexible models with certain basic guidelines for the training of human resources can be constructed, it is impossible to go further than this. These arguments do not, of course, negate the role of planning in education, but stress that it ought to be based on criteria other than the mere input-output concept which is applied to the educational system.

5. The foregoing criticisms are not directed against the formal education system itself. Even if this were assumed to be perfect, the same problems would arise as regards, *inter alia*, investment in education, the concentration of such investment at specific levels, or human resources planning. Concurrently, how-

ever, and with steadily increasing vigour, a whole series of strictures on the formal system is taking systematic shape; it perhaps marks the most important change in this period, and constitutes a stubborn head-on attack against the school system, finding its most extreme expression in the proposal to do away with formal schooling in society.

For the purposes of this article it is pointless to analyse such views in connexion with the central countries. Applied to the developing countries, some of these criticisms are focused on the expansion potential of the formal school system. The following is the form this argument generally takes. The developing countries proposed to attempt to cover the entire school-age population at the primary or basic level, and a reasonable number at the secondary and university levels. In order to attain this target almost all of them considerably increased their expenditure on education not only in absolute terms, but also in relation to their GNP. At the end of this long and costly effort, however, large numbers of children still have no access to schooling; it even happens in some countries that although the proportion of illiterates is falling, in absolute terms their numbers are increasing. Therefore, if the countries have reached the maximum they can spend on education and are so far from attaining the goals proposed, we have proof that the indefinite expansion of the school system is too costly to be possible in developing societies, and, therefore, that new forms of education, different from the traditional school system, must be created.

A second group of criticisms is directed against the content of formal education. The most important are levelled at its academic nature, by which they mean

<sup>14</sup>See Robinson Hollister, *A Technical Evaluation of the First Stage of the Mediterranean Regional Project*, Paris, OECD, 1967.

the inappropriateness of its content to employment needs, to the requirements of society and of development. The schools, at their different levels, prepare people without any contact with real life, and all efforts to remedy this situation are in vain. At most, the school systems add new contents, change curricula, etc., but their basic features remain unaltered and the sole achievement is a further increase in the cost of education.

The target of a third series of strictures is the bureaucratization of the formal system. This is an immense network which in many countries is the main source of employment, and hence large bureaucratic organizations grow up which are generally centralized and highly inefficient. The most tragic result is that these and other factors end up by making bureaucrats of the teachers and professors themselves. They become civil servants whose main concern is to discharge their duties formally, and to prepare themselves, or exercise pressure, for promotion and advantageous transfers and/or higher salaries. Lastly, what they lack is the mystique necessary for giving impulse to a genuine educational project of the type that a developing society needs.

The most radical form taken by these attacks on the formal educational system is the proposal purely and simply to do away with it (Illich and his collaborators).<sup>15</sup> The formal system is

<sup>15</sup> See Ivan Illich, *Deschooling Society*, New York, Harper and Row, 1971; and B. Reimer, *School's Dead: An Indictment of the System and a Strategy of Revolution*, Garden City, New York, Anchor Books, 1970.

monstruous, enormously expansive, and performs none of the functions for which it was created, or does so in a fashion that goes from bad to worse. New systems of education must be created which have no ties with the past, and in order to do this the existing system must first be demolished: in other words, society must be deschooled.

Implicit in all these criticisms, of course, is the hypothesis that other forms of education do exist and ought, according to some, to operate alongside the traditional system, or, according to others, to replace it entirely. The chief of these is what is generally called non-formal education. This system, which was almost unheard-of in Latin America fifteen years ago, is gaining increasing ground, and is viewed with growing frequency by experts as the grand panacea for all the ills diagnosed.

This arsenal of critiques, the validity of which will be analysed later on, provides one of the fundamental bases, although not the only one, for the construction of the new utopias<sup>16</sup> which are proposed as a substitute for existing educational policy.

<sup>16</sup> It is an abuse of the term 'utopia' to apply it to these conceptions. In fact, they lack the better features characteristic of true utopias, including a coherent philosophical basis. They have been somewhat ironically called "utopias by aggregation of objectives" (see Aldo E. Solari, Rolando Franco and Joel Jutkowitz, *Teoría, acción social y desarrollo en América Latina*, Mexico City, Editorial Siglo XXI for ILPES, 1976, p. 621). Here and in the following pages the term is used in the ordinarily-accepted vague, but convenient, sense of an illusory vision of the future which is presented as possessing a certain degree of coherence.

## 4.

**The new utopias and the current situation**

1. In essence, the new utopias can be described in a few words. Education must be provided for all, throughout their lives, with due regard to the principles of equality. No more, no less.

Perhaps a short explanation is called for respecting the sense of the expressions just used. 'Education for all' means that all citizens must be assured of a minimum education, the content of which must meet their needs, and suffice to enable them to be true citizens in every sense of the word. 'Throughout their lives' involves the idea that education is a continuing process which goes on or should go on for ever, and whose instruments it is the duty of society to make accessible to every citizen. 'Equality' is, of course, the right of all to be placed on an equal footing as regards the possibility of utilizing those instruments to obtain permanent education. The learning polis or society discussed in the Faure Report is one way of expressing the same idea.<sup>17</sup>

2. How can these goals be reached? At this point a distinction must be made. Most writers hold the view that what is needed is to combine the traditional formal system, duly modified, with non-formal education and the new educational technologies. Only a harmonious conjugation of the systems and the new media which science has placed at man's disposal in the field of education can

enable such complex and lofty objectives to be achieved. Almost all the exponents of the new utopias clearly cherish two beliefs side by side: one, that they could not be attained without the combination proposed, and the other, that once this is effected, their attainment is certain. The difficulties are formidable, but we have the means of overcoming them, and if a truly rational educational policy is arrived at success will follow as a matter of course.

For a minority, although a very influential one (Illich and his disciples) results can be obtained only through the complete destruction of the formal school system. Repeatedly, and rightly so, it has been pointed out that whereas in their critical aspects the arguments of this group are highly lucid and impressive, the content of the proposals on how to replace the school system, and how a deschooled society would operate, is much vaguer. These objections seem well-founded, but it is worth while to stress that, even if they are, the coherence of Illich's ideas is very strong. If the school system has the defects attributed to it, as most of them are irremediable it seems more logical to turn to a completely new system rather than to a combination of the old system—however rejuvenated—and the new patterns.

Nevertheless, the dominant idea is the other. It is possible and necessary to establish in educational planning, as in social planning in general, target groups, that is to say groups of persons who are in a specific situation for reasons common to all members of the group

<sup>17</sup> See UNESCO, International Commission on the Development of Education, *Learning to Be*, Paris, Harrap, 1972.

concerned. Through different educational media –varying roles being played by the formal and non-formal systems as the case might require–, systematically linked in many instances with instruments that are not educational in the strict sense of the word (health programmes, nutrition, etc.), satisfactory educational levels suited to the needs of such groups would be attained.

3. The difference between the traditional utopia, based on the expansion of the formal school system, and the new utopias is so enormous that there seems no need to point it out, much less analyse it. However, a few remarks are essential to underscore the fundamental points of divergence.

The traditional concept also incorporates the assumption of education for all and equality in education. It is only the idea of lifelong education that has been omitted up to recent times, for it was not until lately that the term itself was coined.<sup>18</sup> However, the proponents of the traditional concept were not ignorant of the fact that education is, also, an extra- and post-mural process; but they thought this less important than the intramural aspect, and held that organized social action, particularly action by the State, should concern itself with the latter.

<sup>18</sup>The idea in itself is by no means new. The Report of the Committee on Public Education (drafted presumably by Condorcet) to the Legislative Assembly in France, in April 1792, after describing some ways of achieving the aim under discussion, stated: "If general education is thus continued *throughout life*, the knowledge acquired in school will not be quickly erased from memory . . . *It will be possible to demonstrate the art of self-education . . .*"\* (The italics are mine). The text is reproduced in F. Buisson, *Dictionnaire de Pédagogie et d'Instruction Primaire*, Paris, Hachette, 1911. \*Translator's note: Unofficial translation.

Of greater importance is the difference in respect of equality. According to the traditional concept, the equality requirement is met only if education is universal, at least until the end of the primary cycle, and essentially the same in respect of its content and methodologies. On this basis alone is it possible to guarantee, not equal results for all, but at least equality of opportunity. The new concept is based on the belief that equality of results can be obtained through non-formal or formal education media, through various combinations of both, etc.

This discrepancy reflects another of a more basic and radical nature. The traditional concept starts with the utopian premise that an egalitarian school system can be organized within an inequitable society. Precisely because society is inequitable, if the educational process is left to the existing machinery available to the different groups for the transmission of education, the inequality can only be perpetuated. On the other hand, the organization of universal access to a system which would equalize education in terms of quality and content would make the school an agent for reducing social inequalities.

The proponents of the new utopias do not omit to underline the utopian nature of this claim, nor fail to recall the wealth of studies which show that the school is also a means of perpetuating and strengthening existing inequalities. In contrast, they do not appear to be too concerned with finding a reply to the assumption by which the other concept has always been accompanied, namely, that the out-of-school mechanisms are more exposed, so to speak, to inequality. Educational equality is a utopia which is inherent in both views; the real question is, therefore, to ascertain whether the

probabilities of overcoming social equalities by setting up non-formal systems are higher or not. The other possible idea, namely, that education can have no effect

whatever, seems to be rejected by both doctrines. These questions can be better understood if an analysis is made of the difficulties implicit in the new utopias.

## 5.

### **Difficulties and perplexities concerning the new utopias**

1. The first of the moot points raised by the new utopian theories is the following: they start by observing that the existing formal education systems are and mainly for financial reasons will be inadequate to provide for the whole population in the age groups requiring basic education plus a considerable part of the population in other age groups, and end by asserting that it is possible to introduce another system which will serve the entire population throughout life. Non-formal education and the new technologies constitute the essential instruments of this great leap forward. To establish the truth or falsity of this claim, what is needed is not an act of faith, but rational proof. However, no such proof has been furnished. Although this does not mean that it cannot be produced, the omission is a serious one, since past experience shows that there are societies which have succeeded in universalizing basic education through the formal system, and it would be necessary to identify the specific causes which prevent others from reaching the same result. As to lifelong education, all societies without exception are very far from having attained it to an even moderately satisfactory degree, so that in this respect too proof is needed.

2. The arguments of an economic and financial nature are important enough to merit special consideration. There are in fact various lines of reasoning which become entangled or whose logic is not always easy to detect. As has been seen, one of the favourite examples cited is that of the countries which have reached the limit of what they can spend on education without having succeeded in providing schooling for their entire population. Sometimes, in relation to this problem, arguments drawn from recent research in the United States are adduced, although there the interpretation of their significance for educational policy is a matter of great controversy. Most writers are prepared to agree that new investment in education, or, if preferred, an increase in inputs, exerts little or no influence on the output of the school system; 'output' here being the cognitive ability of the students. Jencks and others conclude from this that expenditure on education should not be reduced, but increased in the light of considerations based on human rights; Moynihan maintains that it should not be increased, and can even be reduced. However, no conclusion applicable to Latin America can be drawn either from this controversy or from Moynihan's

extreme position within it. The conclusion reached by the latter writer is that "after a point school expenditure does not seem to have any notable influence on school achievement. To repeat, *after* a point. A school without a roof, or without books, or without teachers would probably not be a school in which a great deal of learning went on".<sup>19</sup>

In other words, even those in favour of reducing expenditure on education base this view on a phenomenon of diminishing returns after a certain level has been reached. It is very possible and fairly logical that, above a certain level of expenditure per student, the favourable effects produced are much less substantial. But in these terms the argument is inapplicable to Latin America. Which are the countries that have reached the stage of diminishing returns? Research would have to be carried out on the problem in relation to each and all of the countries of the region. Such scant evidence as exists yields varying results. For one country, the findings are similar to those appearing in United States research; in two other cases, greater expenditure on education seems to have a positive effect on school performance. The country which is approaching a situation of diminishing returns is Chile, one of those which have advanced furthest towards providing schooling for the entire population.

The evidence drawn from United States experience either conflicts with the results obtained in Latin America

<sup>19</sup> See Daniel P. Moynihan, 'Equalizing Education: In Whose Benefit?' in Donald M. Levine and Mary Jo Baine, *The 'Inequality' Controversy: Schooling and Distributive Justice*, New York, Basic Books, 1975, p. 100. (Italics in the original text.)

or, at any rate, gives no support to the idea of the financial impossibility of providing schooling for the entire population.

3. One argument which is linked with the foregoing but has a significance of its own is that the formal educational system does little or nothing to reduce inequality.

This affirmation has several specific facets, of which only the commonest and most important are considered here. The testimony of research carried out mainly in the United States suggests that education has no influence either on income distribution or on social mobility. In this case too the evidence is the subject of controversy in the country of origin. Even supposing that the assertion is true for the United States, its applicability to Latin America is more than debatable.

In the first place, this argument is linked to the assumption that expenditure has reached a level at which an increase neither improves income distribution nor promotes social mobility, as already discussed in the previous section.

Secondly, the United States research assumes dimensions to be constant which in Latin America are variable and which are fundamental in any controversy on the effects of education. For example, a satisfactory level of nutrition throughout the school-age population is taken for granted, a premise which, while logical for the United States, would be absurd in the case of Latin America.

Lastly, a basic difference is overlooked, which cannot be disregarded, although its implications are far from clear in the present state of knowledge: the distribution of education is better

than that of income in the United States and in the most developed European countries.

Again the same conclusion is reached; the point can only be settled by evidence drawn from the Latin American situation itself. But owing to the lack of research all that can be offered is a series of hypotheses or conjectures of varying probability.

In the first place, everything seems to suggest that in the Latin American countries, with the possible exception of Chile, Argentina and Uruguay, the distribution of education is even more unequal than that of income. Under these conditions it seems very unlikely that education can have a positive effect in respect of more equitable distribution.

An even more serious fact is that an improvement in the distribution of education—still leaving it worse than that of income, however—does not appear to have had any favourable impact, as Barkin has sought to demonstrate in the case of Mexico.<sup>20</sup>

Arguments of this type, based on data at a high level of aggregation, seem to have much less importance in settling the problem than is sometimes attributed to them. The fact that the distribution of education improves while that of income remains the same or even deteriorates does not prove that the former has no influence on the latter. The factors which affect income distribution are manifold, and until more detailed studies exist it can always be argued that education has a positive influence

<sup>20</sup> See David Barkin, *La Educación: ¿una barrera al desarrollo económico?*, in *El Trimestre Económico*, Vol. XXXIII, No 4, Mexico City, Fondo de Cultura Económica, October-December 1971, pp. 951-993.

which has offset the action of other factors, and that without the improvement in the distribution of education, income distribution would have been even more inequitable.

That education *per se* cannot change income distribution is obvious enough. It is reasonable to believe, however, that public expenditure on education has a favourable redistributive impact. Jallade has proved in the case of Colombia<sup>21</sup> that this impact is the composite product of a very favourable effect of public expenditure in the case of primary education, a much less favourable one in that of secondary education and a regressive one in that of higher education.

In other words, certain forms of education financing, particularly expenditure on basic education, exert a moderate but undeniable influence in favour of better income distribution.

An ancillary argument can be derived from the fact that the rates of return on educational investment are high in Latin America—more so than in the United States.<sup>22</sup> Admittedly, the existing data must be taken with considerable caution. The calculation of the rates of return does not make allowance either for the effects of individual ability or skill, which are reflected in more years of education and presumably in higher income at work, or for those of the socio-economic

<sup>21</sup> See Jean Pierre Jallade, *Public Expenditure on Education and Income Distribution in Colombia*, Occasional Papers, No 18, Baltimore, Johns Hopkins Press, 1974.

<sup>22</sup> See, for example, Miguel Urrutia Montoya, "La educación como factor de movilidad social", in *Cuadernos de economía*, Bogotá, Universidad Católica, December 1975, No 37, p. 22, where a table covering various Latin American countries is presented.

origin of the students. Both should be discounted in order to form a more exact notion of what can be considered as a rate of return on education itself. Recently Larry Griffin sought to show that if the two factors in question are introduced into the seven surveys which have been used in the United States to calculate rates of return, these are found to be over-estimated by between 35 and 40 per cent.<sup>23</sup>

There is no means of knowing whether the over-estimation which is obviously bound to exist in the calculations made for Latin America is greater, lesser, or about the same. It might be supposed that inasmuch as the social differences are more marked the over-estimation is likely to be greater; however, since the school population covers a much narrower spectrum than in the United States, social differences within it may possibly be smaller. In any case there are grounds for the belief that a fairly substantial rate of return does exist, although it is not as high as that appearing in the usual calculations. Urrutia,<sup>24</sup> maintaining as a constant the education of the parents, a relatively valid indicator of the socio-economic origin of the students, finds a positive link between the education of the child and parental income.

In short, the existing evidence is far from conclusive; it does, however, indicate that expenditure on education has a favourable influence, or at least furnishes no data to warrant the belief

<sup>23</sup> See Larry Griffin, "Specification Biases in Estimates of Socioeconomic Returns to Schooling", in *Sociology of Education*, Vol. 49, No 2, Albany, N.Y., The American Sociological Association, April 1976, pp. 121-139.

<sup>24</sup> See Urrutia Montoya, *op. cit.*, pp. 28-31.

that any good would be done by reducing it.

4. The favourite weapon in the debate, however, is the example of the countries which have reached the limit or assumed limit of possible expenditure on education and despite that have not succeeded in providing schooling for their entire population. Let us assume that a country really has reached this limit and that only 50 per cent of the population receive five years of basic education. On this assumption, which is on the optimistic side for Latin America, schooling still has to be provided for 50 per cent of the population, a need that can be met through the new media or by combining these with the old methods. Obviously, the combination must cut the unit costs of education by half so that the desired result can be obtained with the same resources. In reality the cost would have to be reduced much more, since this expansion in respect of the age groups absorbed by the formal system today would have to be supplemented by currently non-existent mechanisms for educating the entire population throughout life. Since at the same time it is admitted that an unspecified part of the population will continue to be served by the formal system, the question arises of how to check its long-standing trend towards ever-increasing costs.

In response to these objections, stress is commonly laid on the role of the new technologies in making it possible to extend education to the masses at very low costs. Not all the new technologies have low costs, however; some are expensive, and there is no certainty that the final result will be cheap enough to provide grounds for the hopes implicit in the new utopias.

Furthermore, the formal system exists and the apostles of the new concept do not propose to destroy it, but to reform it. How would its costs be reduced? An essential part of the costs is represented by the salaries of the teaching staff. Although in many countries they are low in individual terms, as a whole they constitute a very heavy burden. What political transformation would be required to reduce their share in expenditure on education? Moreover, in most of the countries the service offered by primary education is wretchedly poor. How could it be further constricted? And if instead of being constricted it were developed as it should be, what means could be found of obtaining the overall reduction of costs needed for the utopia to be workable?

5. A striking feature of the controversy is the scant attention paid in the criticism of expenditure in the formal system to its internal priorities. In many countries higher education has come to account for more than a third of all educational expenditure. Brazil, for example, in 1973 allocated 35 per cent of total expenditure to the primary level and exactly the same proportion to higher education. This largely accounts for the inability of the system to universalize basic education. Countries in which the university has never absorbed more than 20 per cent of total expenditure, such as Uruguay, have succeeded in fulfilling this aim to a more or less satisfactory degree.

When the formal system is denounced as ineffectual because it expends the maximum available resources without achieving its objectives, and at the same time the problem of the internal priorities is disregarded, a

solution is being offered that conserves the priorities existing within the system, shirking discussion of their significance.

6. No less conservative is the assumption that it is impossible to spend more on education. Why? Is it perhaps because someone has decided that it is rationally impossible to spend less on armaments? The riposte that, given conditions in the Latin America of today, it would be utopian to expect a reduction of military expenditure that would benefit education seems a kind of fencing that suits oddly with the new ideas. Can it be that the transformation of society implied by the conception of education they are urging is any less utopian? It is difficult to weigh utopias in the balance, but utopia for utopia the most desirable is the best.

7. The criticisms of the bureaucratization and fossilization of the formal system hit the mark. Nevertheless, one general comment on them seems called for. Broadly speaking, they show that formal education cannot attain the utopian objectives which many theorists have proposed, but these objectives themselves are not re-examined and denounced as utopian; instead, they are accepted and formal education is attacked for being incapable of fulfilling them. The assumption is that other methods could make it possible to achieve them. In this reiteration of objectives, in the refusal to consider whether, in the form and within the time-limits proposed, they are attainable by any society, in the condemnation of a system existing *de facto* on their basis, and in the acceptance of an

ideal and vaguely-conceived system, lies the very essence of the new utopias, which, as such, deserves careful consideration.

## 6.

### A new system of illusions?

1. The bureaucratization and conservatism of the formal education system are hard to deny. Its capacity to change is slight, sometimes non-existent. This is not a novel criticism, of course, but one often levelled in the past: the history of education is an inexhaustible source of examples of the resistance of educational institutions to innovation.

But this is not the heart of the matter. The question is, what are the nature and origin of the changes contemplated. Again, it is a difficult one to pose in purely abstract terms, without reference to specific historical situations. The attempt to do so seems to be a flaw common to both the old and the new utopias.

A first basic query is: what can be expected from education with regard to change? No answer can be given unless it is specified what changes are meant and what would be their historico-social context.

Since education is a social phenomenon, it may be taken for granted that theories on educational change depend on the theories which are accepted about social change in general. This relationship, however, is more complex than may appear at first sight. Normally, for example, a distinction is drawn between theories of social change based on consensus and those based on conflict, the former being represented by structuralism and functionalism and the latter by marxism,

among other possibilities. Apart from being over-schematic, this distinction does not even have necessarily differing implications for the problems of educational change. The reason is that the two theories have a common root, which may be described as structuralist if one is so inclined, and which leads them both to view changes in education as essentially derived from social change. While they differ enormously in their way of conceiving social change, and thus in the meaning they attach to education, they agree on the central idea that, ultimately, important changes in education can only occur as a consequence of others that have already taken place in the social system.

Sociological analysis seems to have shown that the idea that education, whether formal or non-formal, can be the *primum mobile* of radical change is wholly mistaken. Societies change more or less radically; and these changes, sooner or later (sometimes much later), penetrate into the educational system, which plays a part in hindering or strengthening them or in creating minor internal innovations of its own. But education and the changes introduced within it can hardly be a basic cause of social transformations.

At any rate, whereas thousands of examples may be given of the slowness of educational institutions to incorporate changes, none can be found that clearly show significant changes pro-

duced by education. There is the phenomenon of education as a revolutionary instrument, i.e., used by the group in power once the revolution has triumphed. The role of education in this case, however, is in no way different from that of the reactionary education established once the forces of reaction have triumphed. It is a tool for imposing and maintaining changes which have already occurred.

In a pluralistic society, the power structure tends to be mirrored in the system of domination implanted in education. It may be alleged that often groups which do not pertain to that system may nevertheless manage to acquire some power in education, which may thus become an instrument for changing the power relations in the global society. This is true, but only within very narrow limits, as is proved by what happens whenever such groups go too far and openly attempt to place the educational system at the service of their ideals or their interests, or both. The reaction is not slow in coming, and it then becomes clear just how relative is the autonomy of the educational system.

The basic error lies precisely in the absurd and fanciful attempt to separate education from society and then transform it into an autonomous source of social change; and it is an error which may be committed in relation to any form of education. Furthermore, great changes may take place in society and yet, on the surface at least, very few in education, but this occurs when it serves the purpose of the new groups in power: not because education is autonomous, but precisely because it is not. When Christianity triumphed in Rome, a great controversy broke out among the Christians: what to do with the

Roman school system, which was undeniably an excellent network. Many argued that the existing system should be destroyed and that a fresh start should be made from scratch. In the end, however, the idea of preserving the system almost intact won the day. Some writers have stressed how very slight the changes introduced by Christianity were, and how extraordinary it was that the old pagan names and characters should have been kept on as instruments of education. It may be maintained, with Marrou,<sup>25</sup> that only one innovation is observable, namely, the introduction of the words 'Blessed be the Lord' on the first page of every text and a carefully-drawn cross on each of the following pages. All the rest of the system continued to function just as before. Obviously, however, this change is fundamental. It expresses a whole system of new beliefs and values. The pagan authors may still be studied, but inserted in the new system their stories become part of mythology and no longer belong to religion. Victorious Christianity could not but use so important an instrument already established in society, and to that end the necessary changes were introduced to bring it into line with Christian values and no others.

Many other arguments might be adduced. What is important is that they all lead to the conclusion that it is absurd to reproach one type of education for being incapable of producing changes of a specific kind—as absurd as to think that any other type could produce them: the fallacy lies in the shared premise.

<sup>25</sup> Henri-Irénée Marrou, *Histoire de l'Éducation dans l'Antiquité*, 2nd. ed., Paris, Editions du Seuil, 1950, pp. 423-431.

Essentially, then, the really important changes in education are generated outside it, and, therefore, presuppose considerable changes in society. This conclusion places the new utopias in a more awkward position. The aim of creating a learning society is identical with that of profoundly transforming society as a whole; and in society the distribution of education is linked with the distribution of power.

2. The neglect or under-estimation of the difficulties pointed out in the preceding section is clearly exemplified in the problem of education's contribution to social equality.

It is common knowledge that generally speaking the children of those who have accumulated more goods in a society in turn receive in it more education of the formal type; and, likewise, that formal education is a way of confirming the existing status distribution rather than altering it. An abundant literature has stressed these points. One of the most important interpretations leads to the concept of the school system as a means of cultural reproduction tending to maintain social differences, since the family transmits the basic means to acquire cultural capital, while the school transmits the cultural capital itself but not the basic means to acquire it. As a result the school merely sanctions and legitimates the existing inter-family differences in cultural capital.<sup>26</sup> Whatever the validity of this and other explanations—discussion of

which is beyond the scope of the present article—it should be stressed that the basic cause of inequality is always *outside* the formal system, stemming from social inequality as evidenced in families. Any educational system will be subject to the influence of inequality of this kind, and it is not clear what miraculous qualities a non-formal system, for example, could possess to escape it.

In the last analysis, then, any system of education in a society with very marked inequalities tends to confirm and transmit them. This is not to say that education has no role as an instrument of mobility. In some situations and for some groups it has played such a part. Carried to extremes, the theory of the reproduction of cultural capital is untenable: if it really worked in practice, the number of families possessing cultural capital would be bound to decline steadily. Only families which possessed it could transmit the means of gaining access to it; the others could not. The former could but would not necessarily do so; the latter could not do so in any circumstances. Therefore, from generation to generation the number of families with a given cultural capital would tend to dwindle. The empirical evidence shows that education is an instrument of mobility for some families, which obviously implies that there are structural possibilities of mobility and that education is not too unequally distributed.

On the other hand, the idea that education is necessarily an instrument of social mobility *per se*, so dear to many proponents of utopias, seems absurd. However, to condemn the educational system because it does not fulfil the expectations or illusions cherished with respect to it is meaningless;

<sup>26</sup>See, for example, one of the latest versions of the thinking of Pierre Bourdieu, "Cultural Reproduction and Social Reproduction", in Richard Brown (ed.), *Knowledge, Education and Social Change, Papers in the Sociology of Education*, London, The British Sociological Association, 1973, pp. 71-112.

and still less does it prove that other forms of education can play such a role more effectively.

3. This brings us once again to the problem of non-formal education. Although the term is often used loosely, most authors who refer to it tend to distinguish between formal, non-formal and informal education. The term non-formal is defined by Coombs, for example, as applicable to "any organized, systematic educational activity carried on outside the framework of the formal system to provide selected types of learning to particular sub-groups in the population, adults as well as children".<sup>27</sup> Formal education is synonymous with schooling, and informal education is the residual category which includes all the remaining ways of learning.

For the purposes of this article there would be no point in embarking on a critical analysis of these definitions, which are mentioned only because they represent the broadest consensus on the question. It is worth emphasizing that non-formal education is organized and systematic, features which it shares with formal education and which are the two that essentially distinguish it from informal education *strictu sensu*.

According to the most widely accepted theories, the specific characteristics of non-formal education lie in its costs, its structure, its teaching methods, its links with the job structure and the nature of its rewards.

A major argument put forward in favour of non-formal education is that

it is less expensive than formal education and would thus resolve the much-canvassed problem of the limits on educational expenditure. To tell the truth, no systematic comparison following rules that make it strictly fair to both sides has been carried out. For example, the State or mixed public/private institutions which exist in Latin America to train manpower —Chile's National Vocational Training Institute (Instituto Nacional de Capacitación Profesional- INACAP), Brazil's National Industrial Apprenticeship Service (Serviço Nacional de Aprendizagem Industrial- SENAI), etc.— have varying costs which cannot reasonably be compared with those of formal education since their goals and methods are very different. Some forms of vocational training which fall in the category of non-formal education are very expensive, and the cost per student is higher than in formal education; obviously, however, no conclusion can be drawn from this, since they imply, *inter alia*, the use of expensive equipment which the latter can do without. Moreover, in such cases non-formal education is not designed to replace formal education but to complement it.

The argument that it would be cheaper to substitute non-formal for formal education altogether, or to a large extent, hangs upon several assumptions. The most important derives from the fact that both in the United States and in Latin America many cases that can be cited to substantiate this contention are based on mainly voluntary services.

It may be estimated that for the time being non-formal education in Latin America does not cover more than 5 per cent of the total number of

<sup>27</sup>See Philip Coombs, *Attacking Rural Poverty*, Baltimore, Johns Hopkins Press, 1974, p. 8.

educands, and no attempt at State control appears to be made, except in respect of large institutions for vocational training, adult education, etc. The other forms, ranging from private academies to a large number of community education movements outside the school system, are subject to very little control, if any.

It is precisely these which are the most promising from the financial point view, in terms of lower costs, and which, as pointed out above, are based on voluntary services. What would happen if non-formal education expanded sufficiently to replace formal education or complement it to a significant extent?

Obviously this is a matter of conjecture; but then it is likewise mere guesswork to suppose that the relatively low costs which obtain in a very special situation will be maintained if considerable growth occurs. In the first place, it would be reasonable to believe that, in the event of such growth, State control would be inevitable. A system of non-formal education which reached a large number of the population, and fulfilled an increasingly important function, would have the same chance of escaping State control as formal education, since the essential reason for this control lies in the importance of the social function of education, and not in its formal or non-formal character.

A second reasonable surmise would be that, in the conditions prevailing in Latin America, the system would tend to undergo a good deal of bureaucratization, that many voluntary and unpaid functions would become remunerated, that real or apparent technification would be inevitable and that, in sum, costs would rise considerably. It is by no means difficult to imagine

that the most probable outcome would be a conflict between formal and non-formal education over the distribution of very limited resources. Nor should it be forgotten that in the last century many educational reformers, basing their judgement on contemporary examples, believed that extension of the formal system would be much cheaper than it turned out to be.

It is commonly alleged that preparation for work is more efficient and less costly in the non-formal system. The evidence for this is far from conclusive in Latin America; and even if it were, the arguments relate to the expansion of non-formal education to fulfil other functions than vocational training of this kind: i.e., to replace formal education or complement it to a hitherto unprecedented extent.

Many writers, after criticizing the inefficacy of the formal system in reducing the existing inequality, explicitly or implicitly assert that non-formal education would have more positive effects from that standpoint. It is true that this assertion, although controversial, has been made explicitly in a number of studies, but not indiscriminately in relation to non-formal education of any kind. The virtue in question is attributed to it on the assumption that it involves: (a) groups with a relatively high degree of autonomy which wish to assert their identity; (b) groups which are more or less strongly in conflict with the prevailing system of domination and are fighting to obtain a better position in it, sometimes asserting a counter-culture; and (c) the use by these groups of non-formal education systems directly controlled by themselves and not from outside to attain some of the goals mentioned under (a)

and (b).<sup>28</sup> Hence the “need to identify and classify examples of non-formal education programmes as they have occurred over time in collective efforts by groups seeking to oppose acculturation, inequality, racism, economic exploitation and structured violence in non-revolutionary societies”.<sup>29</sup>

Two points must be stressed. In the first place, this role of non-formal education as strategy to change the power structure in the hands of a group enjoying a relatively high degree of autonomy is wholly absent from the policy advocated by the World Bank or by UNESCO in the Faure report. In the second place, if groups with these potentialities do exist, the use of education as a means to alter the power structure in their interests may be a real possibility in the case of both non-formal and formal education. The assumption made is that groups which have acquired some power in society and are engaged in the conflictive process of asserting it and extending it have very little access to the formal system and therefore use the non-formal one. If they had access to formal education, however, they would presumably attempt to bring it into line with their goals from the outset, or once non-formal education had served as a vehicle for them to strengthen their position. In other words, the assumptions used to endow non-formal education with a dynamic character in the power conflict can also be used to ascribe the same quality to formal education. In certain combinations of circumstances,

either it is true of both types –and whether at a given moment non-formal or formal education appears more important depends entirely on the specific conjuncture– or it is false of both, because neither formal nor non-formal education can have an egalitarian effect so long as the prevailing system of domination remains intact.<sup>30</sup>

4. All kinds of arguments, in addition to those mentioned above, have been adduced to advocate a greater expansion of non-formal education in Latin America. I shall not discuss them here because I fully agree with them. Unquestionably Latin American education suffers from an unhealthy concentration in the formal system, and great advantages would flow from the use of non-formal education as a substitute or complement, but not at the level of basic education. Our criticism here is that the new policy bases suggested attribute to non-formal education effects which it simply cannot have or which are in contradiction with the initial assumptions made. And this is very easy to demonstrate. If an indigenous group, for example, in order not to lose its identity, creates more or less systematic non-formal education mechanisms, the relevant question is how society and the power structure it embodies will view this assertion of identity and autonomy, not whether the group does or does not make use of non-formal education. If such self-

<sup>28</sup> An excellent example of this argument may be found in Rolland G. Paulston & Gregory LeRoy, “Strategies for Nonformal Education”, in *Teachers College Record*, Vol. 76, No 4, 1975, pp. 569-596.

<sup>29</sup> *Ibidem*, p. 589.

<sup>30</sup> Along these lines, Carnoy’s position appears more coherent, although I do not share it. See Martin Carnoy, comments on Phillip Coombs’ book, *World Educational Crisis*, in *Harvard Educational Review*, Vol. 44, No 1, February 1974, pp. 178-187; and *Education as Cultural Imperialism*, New York, David McKay, 1974.

assertion is seen as damaging to the system and if the group has no other means of strengthening its position in the power structure, the process of doing so, together with the non-formal education contributing to it, will be brought to a standstill. If the opposite is the case, non-formal education may fulfil some positive function. But if there is no threat to the existing power structure, then it lacks all egalitarian significance.

In short, the propositions which aim solely at making the existing system more efficient and less costly can only end by creating two parallel systems at the level of basic education or training. However, non-formal education is subject to the same alternatives in respect of inequality as formal education. The most favoured groups, in the society proposed, will either obtain formal and non-formal education in different combinations, depending on what seems to them best for maintaining their *status quo*, or will resort mainly to formal education. The rest will secure the one type of education or the other according to their degree of power and participation, and basically will have access only to inferior forms of education.

These conclusions, which may appear unduly pessimistic, are expressly and frankly endorsed by the World Bank in a paragraph which is worth reproducing *in extenso*: "It must be recognized that this approach frequently gives rise to controversies with important political and social dimensions. Objections are made that it creates a dual system — a standard primary school which provides access to higher levels of formal education, and a second-rate parallel structure which is terminal. This is considered a violation of the principle of equality of opportunity. Shortening the primary

cycle and other cost-saving or simplifying proposals are opposed on grounds of educational quality. These objections are important, particularly since they are often supported by parents who perceive primary schools as being the only avenue for social advancement of their children. These views are based, however, on an assumption that conventional primary schooling can accommodate all children within a reasonable time. This assumption is unrealistic for low-income countries which face a choice between a standard system serving only 30-40 per cent of the children, and an alternative which aims at providing some kind of education for all".<sup>31</sup>

One of the most interesting features of this passage is what it does not say, that is, how the proposed system can be made compatible with the principle of equality, since from that point of view, so long as it is true that financing is not available for first-class education for everyone, this principle would require that it should be of second-class standard for everyone, or something between the two, but in any case the same for all. In other words, the logical proposition, if the principle is respected, would be that the quality of traditional education should be reduced so as to save resources and establish one universal system for everybody. The education provided would be inferior to that currently received by the 30 to 40 per cent referred to in the paragraph quoted and superior for the rest, which today have none. This conclusion is not drawn, however, so that the principle is quite simply negated; and it would be better to recognize the fact explicitly than to disguise it

<sup>31</sup> See IBRD, *The Assault on World Poverty*, Baltimore, Johns Hopkins University Press, 1975, pp. 297-298.

with arguments that have nothing to do with the matter. The premise is not respect for equality, but a form of political realism pure and simple, which accepts as unshakable the basic elements of an existing social structure.

The concern for political realism is so evident that what gives weight to the objections against the proposed system is that "they are often supported by parents". In other words, it does not matter whether they are in themselves well-founded; it is on the parents' support that their significance depends. Basically, what is being said is that as long as the parents who sustain these objections and possess the power to voice them continue to have the traditional system at their disposal, they will not put obstacles in the way of extending to the others, that is, to the children of the others, an inferior system of education.

The financial argument, as has already been shown, involves a vicious circle: it is political realism which gives it force, but this force does not derive from any economic argument which would make it possible to demonstrate that the countries of Latin America have reached their maximum level of expenditure. Moreover, if the figures quoted are considered carefully it will be clearly seen that they are based far more on the majority of the Asian or African countries than on those of Latin America, since very few of the countries of this latter region cater for only 30 to 40 per cent of the school-age population.

5. One notable fact to be stressed is that the enthusiasm to propagate a policy which it is supposed will ensure universal basic education through non-formal education begets implicitly, and probably inadvertently, contradictory

arguments. In effect, the following assertions are made:

(i) Formal education cannot reach everyone at the basic level and is not a suitable instrument for promoting greater social equality;

(ii) If basic education is to reach everyone it is necessary to establish a new type of education which is recognized to be inferior to formal education;

(iii) This new type of education will be an instrument of social equalization.

Although it is explicitly or implicitly admitted that parallel systems of unequal quality must be created, the inferior system is credited with possibilities of promoting the social mobility of certain groups which, paradoxically, are denied to the superior system. If these were to materialize it would be something more than an absolute novelty in the history of education; it would be a veritable miracle. Forms of education which are inferior to other parallel forms or considered as such, have always been seen to lead to occupations which are also inferior and illpaid, a sequence that is explicable enough.

One of the basic questions is, indeed, that of the employment opportunities of those who pass through this inferior system, even supposing that they take full advantage of it. For example, what would be the attitude of employers to credentials not deriving from the formal system? Almost nothing is known about this in Latin America, and what little empirical research exists on the subject yields negative results. Employers seem to have an enormous faith in the formal system as a source of credentials.<sup>32</sup>

<sup>32</sup> See James Bruno and Cornelio Van Zeyl, "Innovación educativa e ideología social en un sector de Venezuela", in *Revista del Centro de Estudios Educativos*, Vol. IV, No 1, Mexico City, January 1975.

It can be argued that when these credentials derive from training in the enterprise itself or through mechanisms totally or partly controlled by it, non-formal education will contribute to the upward mobility of the workers. Assuming this to be true, it does not seem to be of great significance for the poor, because the enterprises which organize courses of this type are so huge that there are few or no poor people among their personnel. Furthermore, the scant empirical evidence is doubtful. La Belle<sup>33</sup> has shown that in the case studied by him the workers who take these courses improve their incomes; but he rightly points out that only those recommended by their supervisors can follow the courses, so that the ultimate cause of wage increases lies in the opinion of the supervisor rather than in the courses themselves.

It can be maintained that such evidence is fragmentary and therefore may be misleading, and this is undoubtedly true. It is also true, however, that there is no evidence in favour of the policies recommended. At best, the proponents of the latter can only claim that there is no adequate support for either of the two positions. It is clear, however, that a system of the nature advocated, in the light of all the historical evidence available and of the corroboration provided by the scanty empirical research existing in Latin America, is destined to perpetuate the situation of the underprivileged.

6. Under the political system which can be termed traditional, social inequality is

<sup>33</sup>See Thomas La Belle, "Impacto de la educación no formal sobre el ingreso de la industria: Ciudad Guayana, Venezuela", in *Revista del Centro de Estudios Educativos*, Vol. IV, N° 4.

recognized as a fact, and it is assumed that the school is an effective instrument for reducing it, always provided that the school itself is strongly egalitarian. This assumption is totally or largely invalidated because the latter condition is not fulfilled; external inequality finds its way into the school.

This fact does not *per se* prove that the traditional concept of equality of opportunities is erroneous, but merely that it is inadequate. It has always been considered obvious that if better educational opportunities are offered to those with most social privileges, the inequalities will be accentuated. What is being discovered, with a certain naive surprise, is that even when educational opportunities are equal, outside factors, particularly the socio-economic level of the students, produce great differences in the utilization of the school system, or that, at best, the average differences which exist among the various social groups when they enter school remain the same when they leave. Thus, those who believe that education can be a factor, albeit a partial one, in greater social equality, are forced to the conclusion that emphasis must be placed on equality of results instead of on equality of opportunities alone. The school should ensure that the average results of the different groups at the end of their school life are equal, or at least that the initial differences between them will have diminished considerably. This reasoning leads logically to a further step. If the basic objective is to seek approximate equality of results between groups that are *de facto* unequal, it may be necessary and legitimate, in order to attain such a goal, to create inequality of opportunities in the sense of allocating better school inputs to the most deprived groups. This is the idea underlying

the concept of compensatory education, for example.<sup>34</sup>

It is a known fact that in practice groups in the lower social strata lack, or possess in lesser measure, the linguistic tools, the cultural background and the codes of values which prevail in the school system, even when they are not cut off from it by the lack of family resources and/or the need to work. These differences are obviously to be found among fairly broad social groups or categories, taken as a whole, and not between individuals separately considered. Some workers' children may have better pre-school preparation than others from middle-class sectors, for example. Hence reference must be made, as above, to the differences between the averages observable within each of the groups distinguished.

However, a different view can be maintained. The disparities under discussion, which indicate disadvantages for certain groups, are measured on the basis of the dominant school culture. Is it legitimate to do this? There are no grounds for the allegation, at times explicitly or implicitly made, that the most under-privileged groups are without a culture. What happens is that the instruments it provides are inadequate, or make it difficult to master the school culture and its dominant values. The

<sup>34</sup> It is manifestly impossible to undertake a detailed study of the intricate problem of the different concepts of equality in respect of education. All that has been attempted is to review in briefest outline a few basic questions. Among the abundant literature on the subject, an excellent summary (although I disagree on some points relating to the history of the idea) can be found in James A. Coleman, "The Concept of Equality of Educational Opportunity", in Donald M. Lavine and Mary Jo Bane (eds.), *The Inequality Controversy*, *op. cit.*, pp. 199-213.

requirements of equality would thus necessitate a change in the dominant culture to adapt it better to the conditions of such groups, which in turn would mean replacing it completely or creating new forms of synthesis or approximation. This point of view, which can only be summarized in the present context, involves a considerable transformation of society as a whole, not merely of the school, but its ultimate aim is also to reduce, in a different and even more drastic fashion, the inequalities outside the school.

In other words, whatever the validity of this possibility of attaining equality of results, the spirit which animates the new expressions of the traditional concept is that of the struggle against inequality.

The conception presented as new, in contrast, not only recognizes inequality as a fact but also institutionalizes a school system to maintain it, creating a special form of education for the socially underprivileged. In this respect there is nothing new about it; the idea of special education for the poor, to make them good and efficient poor, is very old indeed, and has found striking expression in the past.

Thus the truth is not, as is claimed, that scientific research has now shown the basic assumptions of the traditional concept to be erroneous. Some are, but those that lie deepest, those that are linked with the concept of society and the *polis*, no-one has proved to be scientifically false, for the very simple reason that such a thing is unprovable. The real motive for abandoning them is the purpose of adopting other assumptions and other concepts which tend to recognize, maintain and ultimately strengthen the *status quo*, despite all the fine words to the contrary.

7. It is certainly ironical that when the priority of universalizing basic education at last obtains the blessing of the international financing institutions, it should be in the shape of creating a system whose inferiority is recognized, although it is justified in the name of a supposed necessity.

It is uncertain whether the attempt to establish inferior norms of basic education for special population groups will be successful, but the possibility cannot be prematurely discounted. The congruence between the post-war conceptions of educational policy and the internal power structures of Latin America was pointed out elsewhere in this article. The same sort of thing may happen again with the new policies, except in the countries which have already succeeded in providing schooling for all or nearly all their population by the traditional methods, where such an eventuality is less probable.

The new concept would be applied mainly in respect of the most deprived rural population groups and also, to a very limited extent, in the towns. Thus none of the groups holding any power in Latin America would be adversely affected, and they would continue to base their expectations on the forms of education that suited them best.

Furthermore, the new conception is presented as an instrument which will promote greater productivity among the poorest groups and create self-help systems to improve their condition. There is nothing more attractive than this idea of the poor becoming less poor, which diminishes the threat they may represent, and more productive, which will increase national income and reduce the need for transfers of resources to them from the rest of society. This idea, which could be termed that of 'the poor

for development's sake', seems therefore to fulfil diverse aspirations and satisfy a variety of interests.

In addition, this concept, by leaving formal education *de facto* intact, legitimizes the current distribution of resources.

Similar conclusions can be reached if the potential support for opposition to the new conception is considered, even though only as summarily as in the foregoing analysis. The most deprived groups have neither power to oppose its application, nor sufficient knowledge to realize that its ultimate significance is to keep them in the same situation as at present.

The professional groups, particularly teachers, are in a paradoxical position. In general, professional organizations in Latin America have always advocated the need to maintain and expand the application of the principle of equality. But at the same time, the teachers themselves have voiced and continue to voice more and more criticisms of formal education. The power of the teachers, however, although varying in the different countries, is never very great, especially if it is compared with that of other groups which influence education. Thus we have a group with little or moderate power which engages in relatively important self-criticism in public, over against other groups which have a great deal of power and which never indulge in self-criticism for the public ear. If, in addition to all this, the new concept is presented as having a certain progressive content, as being the only way of making education available to the groups which have always lacked it, the forces of the teaching profession can easily be divided.

Lastly, and most important of all, in most of the Latin American countries

many factors which it would be impossible to analyse here have been cutting away the ground from under conceptions based on human rights, and have conferred special respectability on all those which, in the name of efficiency, wittingly or unwittingly legitimate the ideologies of the groups in power.

8. Once again it must be stressed that the author of the present article shares many of the critical opinions expressed respecting the traditional school, and is also convinced of the need to assign non-formal education a much more important role than it has had in Latin America in the past. It is likewise unquestionably necessary to introduce radical reforms in the school system, to reconsider the study plans and to integrate education, particularly rural education, with other programmes. A possibility worth considering is that of reducing the number of years of formal schooling in conjunction with far-reaching changes in its content and methods, so that it is not prolonged beyond what is really necessary in order to provide everyone with basic education.

What needs defending, therefore, is not education as it stands, or the ways in

which it has been organized, but its basic postulates in respect of equality, which, far from being abandoned, should be strengthened by every means that proves effective in serving that end.

Our knowledge only warrants consideration of measures that: (a) make the formal system more efficient, particularly at the basic level, so that it effectively reaches everyone and reduces inequalities; (b) expand the non-formal system in all respects in which it is clearly more efficient and cheaper than formal education, particularly in vocational training; (c) seek to give more weight to qualifications obtained outside the formal system and to restrain the rate in educational requirements as a method of reserving jobs—even those which are not very well paid—for members of the middle strata.

The improvement and radical renovation of the present model are unquestionable needs, but to destroy it, on the basis of arguments false in themselves or inapplicable to the Latin American situation, in order to create second-rate educational systems is yet another way of perpetuating and intensifying the immense social inequalities which put so great a distance between Latin America and development worthy of the name.



## Exports in the new world environment: the case of Latin America

*Barend A. de Vries\**

Exports have played a crucial role in the economic growth of Latin America. The countries that fared best in the recent crisis were those which had succeeded in diversifying their domestic economies and their exports —on the basis of earlier industrialization efforts— and which continued to encourage their export trade. Similarly, if they are to cope successfully with the complications of the present and future external position, deriving from the higher cost of oil, increased external indebtedness, and the pressure on available capital resources, it will be indispensable for exports to keep up or regain their momentum.

The present article analyses the conditions that would make it possible for the Latin American countries to maintain a viable balance of payments in a context of growth: more specifically, the conditions that would enable them, by the end of the present decade, to increase their exports at an annual rate of 9 per cent or more, their imports at a lower rate and their product by 7 per cent per annum. The aspects analysed include, among others, the evolution of external markets (both those of the industrialized countries and those of the region); the role of exports of agricultural and mining products; the diversification of industrial exports; exchange policy and export incentives; and import substitution projects.

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## Introduction<sup>1</sup>

Over the past ten years most Latin American countries have, to an increasing extent, pursued measures to expand and diversify exports. These outward-oriented policies, together with a generally favourable external environment, made possible unexpectedly high export growth rates in 1968-1973. This export growth greatly enhanced the economic strength of the Latin American countries. It increased their creditworthiness for substantially higher external borrowing, which in turn helped to finance larger investments in industry, mining and infrastructure; and it substantially improved their capacity for adjusting to the adverse effects on their external financial position of the 1974-1975 recession in the industrial countries.

Continuation of export growth and diversification will be important for the development prospects of the Latin American countries over the next 5-10 years, as well as for their ability to adjust to the changes in external price, demand and supply relationships which have occurred since 1973 and to obtain adequate amounts of external financing. At the same time, however, the changes in the external environment may be putting

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pressures on the outward-oriented policies adopted in the late sixties. International conditions for the supply of capital and for export growth may be less favourable than they were in the early seventies.

This paper seeks to assess the role that continued export growth must play in Latin America's development and to discuss how export policies can best be adapted to the changes both in external and in domestic conditions which have taken place since 1973.

First, the paper focuses on developments in 1971-1975, with special emphasis on those features which are likely to have a bearing on the pattern and level of future growth. What were the factors behind the export acceleration? What role did exports play in enabling countries to adjust to the 1974-1975 recession, and how did manufactured exports fare during that time?

Secondly, it considers the role of exports and export policies in Latin

America's growth during the next 5-10 years. What minimal export growth rates must be achieved in order to maintain a viable external position? Can these rates be realized? What are the factors which could cause a slow-down of the growth of industrial exports and a change in export composition? What do these factors imply for export policies, what are the pressures on these policies and what will be the case for special incentive measures? Will Latin America be able to maintain some degree of stability in its external payments position and cope with the effects of fluctuations in external demand?

Thirdly, it considers some aspects of the role of intra-regional trade in recent and prospective export development. How was intra-regional trade affected by the acceleration in exports, and what contribution can regional markets make to export growth and the countries' ability to cope with fluctuations in the demand of the major industrial nations?

## 1.

### Developments in 1971-1975

#### (a) *Export acceleration*

Table 1 summarizes the major elements in the GDP, balance of payments and external debt of ten Latin American countries,<sup>2</sup> which account for some 84 per cent of total GDP of Latin America and the Caribbean, 73 per cent of exports (excluding those of the oil exporters, Venezuela, Ecuador and Trinidad and Tobago) and 89 per cent of

external debt (again excluding these oil exporters). Major characteristics of growth trends in the first three years, 1971-1973 (i.e., those preceding the increase in oil prices and the OECD recession) are:

(i) Growth in GDP, exports and especially manufactured exports reached high levels not achieved in previous years. In 1973 GDP growth averaged over 8 per cent for the ten countries, and manufactured exports increased by 31.3 per cent in real terms. These growth parameters reflect the progressive integration of major Latin American coun-

<sup>2</sup> Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Guatemala, Jamaica, Mexico and Peru.

Table I  
GROWTH, BALANCE OF PAYMENTS AND DEBT: ARGENTINA, BOLIVIA, BRAZIL, CHILE, COLOMBIA,  
DOMINICAN REPUBLIC, GUATEMALA, JAMAICA, MEXICO, PERU

	Estimated actual					Projections				
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
<b>Macro-economic parameters</b>										
G.D.P. growth	7.9	7.6	8.3	7.5	2.9	3.7	5.2	6.0	6.5	6.9
Export growth	3.1	7.9	5.7	1.1	-1.5	8.7	9.2	10.0	8.7	9.0
(Manufactured export growth)	16.5	20.7	31.3	8.3	4.1	12.4	11.5	12.5	12.9	13.0
<b>Ratios</b>										
Resource gap/G.D.P. (%)	1.4	1.1	0.5	2.6	2.8	1.5	0.7	0.3	-0.1	-0.3
Investment/G.D.P. (%)	20.8	21.7	21.1	23.8	21.9	20.3	21.6	22.1	22.4	22.8
Domestic savings/investment (%)	93.3	95.1	97.8	89.1	87.3	92.9	96.6	98.8	100.4	101.2
Incremental capital output	2.4	2.7	2.6	2.8	8.3	5.9	3.9	3.6	3.4	3.2
Imports/G.D.P. (%)	10.3	10.1	9.9	11.5	10.5	9.3	8.8	8.8	8.7	8.7
Marginal savings (%)	25.4	40.2	18.2	26.9	-40.0	13.7	61.6	37.2	30.7	30.8
<b>Terms of trade (1967-69 = 100)</b>										
Export price index	109.4	119.9	158.0	208.5	108.0	218.8	234.8	257.0	276.3	296.3
Import price index	110.8	121.0	147.6	197.2	215.2	232.0	251.1	270.4	289.5	308.9
Terms of trade index	98.8	99.1	107.0	105.7	96.7	94.3	93.5	95.0	95.4	96.1
<b>Balance of payments (Millions of dollars)</b>										
Exports (goods + non-financial services)	12 913.5	15 261.6	21 247.2	28 364.3	27 879.2	31 869.0	37 336.5	44 934.8	52 520.0	61 509.3
Imports (goods + non-financial services)	14 921.2	17 062.3	22 287.4	36 860.6	37 948.1	37 699.3	40 649.2	46 248.0	52 017.0	59 669.9
<b>Resource balance</b>	-2 007.7	-1 800.7	-1 040.2	-8 496.3	-10 068.9	-5 830.3	-3 312.7	-1 313.2	503.0	1 839.4
Other services (net)	-1 594.0	-1 878.4	-2 371.6	-3 022.8	-4 248.0	-5 595.8	-6 366.9	-7 123.9	-8 004.3	-8 629.5
Interest (net)	-1 165.5	-1 372.3	-1 856.7	-2 296.6	-3 543.9	-4 857.2	-5 571.7	-6 141.0	-6 622.1	-7 006.0
<b>Balance on current account</b>	-3 601.7	-3 679.1	-3 411.8	-11 519.1	-14 316.9	-11 426.1	-9 679.6	-8 437.1	-7 501.3	-6 790.1
Amortization	-2 438.0	-2 944.5	-3 786.2	-3 980.6	-4 309.1	-5 144.0	-6 916.6	-8 842.9	-10 248.8	-11 426.7
<b>Capital required</b>	6 039.7	6 623.6	7 198.0	15 499.7	18 626.0	16 570.1	16 596.2	17 280.0	17 750.1	18 216.8
<b>Financing (Millions of dollars)</b>										
Official sources (gross)	1 136.6	1 371.8	1 708.3	2 126.9	2 633.4	2 848.0	3 020.5	3 288.7	3 572.7	3 854.6
(net)	690.1	937.0	1 165.9	1 446.6	1 786.0	1 761.9	1 807.2	2 074.8	2 231.1	2 326.1
Multilateral	425.0	505.9	576.7	769.9	841.8	1 195.3	1 362.8	1 626.7	1 817.7	1 956.2
Bilateral	265.1	431.1	589.2	676.7	944.2	566.6	444.4	448.1	413.4	369.9
Private sources (gross)	3 409.8	6 118.3	7 432.5	11 221.9	11 837.4	10 671.3	11 597.2	11 698.4	12 351.7	12 548.4
(net)	1 418.3	3 609.6	4 187.7	7 931.6	8 375.7	6 614.4	5 897.9	4 069.8	3 447.5	2 637.2
Suppliers	142.0	249.9	458.6	831.4	919.0	1 144.5	1 284.7	1 351.9	1 331.2	1 365.9
Financial	1 230.0	3 316.8	3 823.1	6 500.9	7 322.6	5 288.4	4 551.9	2 658.5	2 111.3	1 289.6
Bonds	85.1	184.6	19.5	38.4	204.7	245.5	124.8	128.5	75.8	67.4
Others	-38.8	-141.7	-113.5	560.9	-70.6	-64.0	-67.6	-69.1	-70.9	-71.8
Direct investment	574.8	677.3	1 662.1	1 544.0	2 122.9	2 138.6	2 493.7	3 001.4	3 294.0	3 455.7
Other capital n.e.s.	893.3	1 179.0	-581.5	-223.7	-299.7	-508.1	-55.5	151.3	28.5	144.7
<b>Reserve change (- = increase)</b>	25.2	-2 722.8	-3 023.4	830.6	2 331.9	1 420.3	-459.8	-859.9	-1 496.9	-1 786.7
<b>External debt (Millions of dollars)</b>										
<b>Debt outstanding + Disbursement total</b>	17 659.8	22 746.6	28 819.9	37 870.3	47 900.0	56 489.0	64 422.4	70 926.0	76 902.4	82 229.1
Debt service	3 603.5	4 316.8	5 642.9	6 277.2	7 853.0	10 001.2	12 488.3	14 983.9	16 870.9	18 432.7
Amortization	-2 438.0	-2 944.5	-3 786.2	-3 980.6	-4 309.1	-5 144.0	-6 916.6	-8 842.9	-10 248.8	-11 426.7
(Official)	446.5	434.8	542.4	680.3	847.4	1 086.1	1 213.3	1 214.0	1 341.6	1 528.5
(Private)	1 991.5	2 508.7	3 244.8	3 290.3	3 461.7	4 056.9	5 703.3	7 628.0	8 904.2	9 897.2
Interest	-1 165.5	-1 372.3	-1 856.7	-2 296.6	-3 543.9	-4 857.2	-5 571.7	-6 141.0	-6 622.1	-7 006.0
(Official)	295.4	325.3	410.1	511.1	613.4	761.6	833.9	934.2	1 079.9	1 247.4
(Private)	870.1	1 047.0	1 446.6	1 785.4	2 870.5	4 095.6	4 737.8	5 206.8	5 542.2	5 758.6
<b>Debt service ratio (%)</b>	27.9	28.3	26.6	22.1	28.2	31.4	33.4	33.3	32.1	30.0

Source: Based on IBRD staff estimates, July 1976.

tries into the world economy (trade, investment and finance);

(ii) As GDP growth accelerated, the ratio between imports and GDP remained stable and the resources gap dwindled to less than 0.5 per cent of GDP, or barely more than 1 thousand million dollars in 1973;

(iii) Terms of trade improved by more than 8 per cent in these three years, despite the sharp increase in import prices associated with the higher oil prices and world inflation.

The acceleration of export growth was most marked for manufactured exports. Those of LAFTA<sup>3</sup> increased by an average annual rate of 39.8 per cent (in current dollars), with rates for the four countries shown in table 2 ranging from 34.5 per cent for Argentina to 52.2 per cent for Brazil. This growth reached a peak in 1973, when it amounted to 31 per cent in real terms for the ten countries shown in table 1, covering a broad range of items such as light and heavy consumer goods, machinery and electrical equipment. Many of these items started from a zero or very small base in 1968 and reached substantial amounts in 1973. Annex table 7 shows twenty-six such export items for Brazil, some of which increased to almost 100 million dollars by 1973. Similar observations can be made for Argentina, Colombia and Mexico (see Annex tables 8, 9 and 10).

The major factors underlying the acceleration of manufactured exports were:

(i) Major Latin American countries had significantly changed their foreign exchange rate policies (especially Brazil

and Colombia, which introduced flexible exchange rates in 1968) and/or adopted effective export incentive measures;<sup>4</sup>

(ii) Their industrial production and marketing capacity had reached a stage where they were able to achieve significant export growth. A substantial part of their export production and marketing was organized with the assistance of transnational companies.<sup>5</sup> In fact, exports increased most to countries where these companies provided access to extensive marketing and retailing facilities (see section 3);

<sup>4</sup>'Exchange rate flexibility' in this paper means a policy of adjusting exchange rates, frequently if necessary, to the pace of domestic inflation, maintaining as a minimum the real purchasing power parity and permitting the exchange rate to play a central role in resource allocation. (Generally characterized by Phase IV of the National Bureau of Economic Research (NBER) project: see Jagdish N. Bhagwati and Anne O. Krueger, "Exchange control, liberalization and economic development", *American Economic Review*, Vol. LXIII, No 2, May 1973.) Brazil is one of several countries which relied on a mixture of exchange rate, fiscal and credit measures to stimulate exports. "When we incorporate our measure of the incentives into the discussion of the evolution of the real exchange rate for manufactured exports over time, we see that the various incentive instruments have *more than offset* any decline in the real exchange rate since late 1964... While exchange rate policy since 1968 has been used to stabilize real exporter remuneration, fiscal policy has been the instrument by which such remuneration has been increased." (William G. Tyler, *Manufactured Export Expansion and Industrialization in Brazil*, Tuebingen, 1976, p. 222.)

<sup>5</sup>See G. K. Helleiner, "Manufactured exports from less developed countries and multinational firms", *The Economic Journal*, Vol. 83, No 329, March 1973. Tyler, (*op. cit.*, page 148) states that multinational firms accounted for 43 per cent of all manufactured exports of Brazil in 1969. Foreign firms were most important for the machinery and transport equipment category, in which they undertook 76 per cent of all 1969 exports.

<sup>3</sup>Latin American Free-Trade Association: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

Table 2  
**EXPORTS TO LAFTA AS PERCENTAGE OF EXPORTS TO ALL DESTINATIONS**  
**FOR TOTAL LAFTA, ARGENTINA, BRAZIL, COLOMBIA AND MEXICO**  
*(1968 and 1973)*

	Exports to LAFTA (%)			Average annual growth of exports
	1968	1973	% change in share	(1968-1973)
<b>LAFTA</b>				
Manufactured products	35.7	26.8	-24.9	39.8
Basic and miscellaneous manufactures	32.2	20.4	-36.6	40.5
Chemicals	27.1	39.3	45.0	21.2
Machinery and transport equipment	58.4	34.1	-41.6	54.0
<b>ARGENTINA</b>				
Manufactured products	47.3	53.3	12.7	34.5
Basic manufactures	34.7	38.0	9.5	38.0
Chemicals	35.5	50.7	42.8	13.6
Machinery and transport equipment	71.0	77.4	9.0	48.0
Miscellaneous manufactures	68.3	37.9	-45.5	32.8
<b>BRAZIL</b>				
Manufactured products	45.6	25.9	-43.2	52.2
Basic manufactures	44.1	18.5	-58.0	47.8
Chemicals	14.1	24.1	70.9	32.3
Machinery and transport equipment	70.4	49.2	-30.1	49.2
Miscellaneous manufactures	37.0	14.8	-60.0	111.2
<b>COLOMBIA</b>				
Manufactured products	28.0	22.2	-20.7	41.9
Basic manufactures	19.3	12.2	-36.8	41.7
Chemicals	51.3	60.7	18.3	42.5
Machinery and transport equipment	55.7	62.7	16.8	34.5
Miscellaneous manufactures	28.5	21.6	-24.2	78.5
<b>MEXICO</b>				
Manufactured products	18.3	11.4	-37.7	37.3
Basic manufactures	9.5	4.7	-50.5	26.8
Chemicals	21.1	25.0	18.5	19.8
Machinery and transport equipment	24.3	9.7	-60.1	66.3
Miscellaneous manufactures	27.0	12.8	-52.6	20.1

Source: Based on United Nations Commodity Trade Statistics (1968-1973).

Note: SITC nomenclature.

(5 to 8 excluding 68) Manufactured products.

(5) Chemicals: chemical elements, compounds, dyes, perfume, fertilizers, plastics, pesticides.

(6 excluding 68) Basic manufactures: leather, rubber articles, wood and cork manufactures, veneers, plywood, paper, textile yarn (natural and synthetic), cement, glass, iron and steel, metal tools and structures.

(68) Non-ferrous metals: silver, platinum, aluminium, copper, nickel, lead, zinc manufactures.

(7) Machinery and transport equipment: boilers, steam engines, aircraft engines, turbines, harvesting and threshing machinery, tractors, office machines, metal-work machines, industrial machinery, pumps, appliances, telecommunications, electric machines and tools, railway vehicles, road motor-vehicles, aircraft, ships.

(8) Miscellaneous manufactures: lighting fixtures, furniture, travel goods, clothing, footwear, professional, scientific and controlling instruments, musical instruments, printed matter, articles of artificial plastic, toys, jewelry, works of art, artisanry.

(iii) Market conditions were favourable, partly because of good business conditions prevailing simultaneously in the United States and the other OECD countries, and partly because of the effects of import liberalization and preferential tariff arrangements;

(iv) Country shares in import markets were still relatively low at the start of the period.

Latin American countries had to adjust to the increase in oil prices and the subsequent 1974-1975 recession, especially those which were not self-sufficient in oil and which, through diversification of manufactured exports to industrial countries, had become more integrated with the world economy. Notable examples are Brazil, Chile and Uruguay. Although the movements of prices for major commodities, especially agricultural, were not strictly parallel in the most recent cyclical downturn – with weather conditions even causing increases for some (e.g., sugar and coffee) –, demand for manufactured exports did generally decline or decelerate.

At the end of 1973 most of the countries were in a relatively strong position to cope with the adverse impact of the OECD recession:

(i) Exports had been rising dynamically and, in fact, the year-to-year increases in export earnings covered a substantial portion of total service payments on external debt (for example, in 1974 the increase in Brazil's exports of goods and services was equivalent to 73 per cent of its total debt service, while for the ten-country group the figure was even larger: 113 per cent);

(ii) The debt service ratio was relatively low – 22 per cent for the ten-country group in 1974 compared with 28 per cent in 1971. Although total debt rose sharply in 1974 and terms generally

hardened in 1975, the increase in service payments lagged behind, and in fact these payments declined in relation to export earnings. Hence, countries were in a strong position to utilize the large amounts of private credits available for financing imports and investments while taking the necessary short- and long-term adjustment measures;

(iii) Imports were at a sufficiently high level in relation to GDP for some compression to be achieved without severely endangering longer-term growth.

In the first phases of the 1974-1975 adjustment process imports did, however, increase faster than GDP in most countries – notable exceptions being Chile and Colombia. External capital facilitated the maintenance of import levels and hence made the adjustment process more gradual than it could have been otherwise. Between 1973 and 1975 import payments rose by 16 thousand million dollars for the 10-country group (or by 70 per cent), the resource gap increased from 1 thousand million dollars to 10 thousand million (or 2.8 per cent of GDP) and external debt climbed from 29 thousand million to 48 thousand million dollars.

A notable feature of the capital inflow was the increased importance of private credits. The net inflow of capital from private sources doubled between 1973 and 1975 to 8.4 thousand million dollars. The share of private credits in total external debt increased from less than 49 per cent in 1970 to 71 per cent in 1975.

Up to 1974 the growth of external debt was roughly in line with the growth of exports. In 1967-1970 external debt increased by 12.6 per cent per annum while export earnings rose by 12.2 per cent. As the growth rate of exports accelerated in 1971-1974, so did that of

external debt – 29 per cent per annum for exports as against 23.5 per cent for external debt.<sup>6</sup> In 1974-1975 external capital was used in part to help offset the adverse balance-of-payments effects of the recession. External debt increased more rapidly than exports, i.e., on average by 29.1 per cent per annum as against an export growth rate of 15.7 per cent. In addition, in 1975 private credit terms hardened markedly.

(b) *Manufactured exports in the 1974-1975 recession*

Some observations on the behaviour of manufactured exports in the two recession years, even if incomplete and tentative, are useful for understanding the issues confronting countries in their export strategy.

First, in real terms exports decelerated markedly. Table 1 shows real growth rates of manufactured exports of 31.3 per cent in 1973, 8.2 per cent in 1974, and 4.2 per cent in 1975. In current dollars exports increased by 53.9 per cent in 1974 and 7.2 per cent in 1975.<sup>7</sup> While the 1974 and 1975 growth rates are clearly more favourable than those achieved for traditional staple products, they are much lower than the 1971-1973 rates, and the experience of some coun-

tries suggests that certain manufactured exports also suffered considerably, in terms both of volume and of prices. In Colombia, for example, the increase in volume in 1975 was more than offset by the decline in unit values; non-traditional agricultural exports did better than manufactured goods. In Brazil, while unit prices of total exports rose by 0.7 per cent, prices of manufactured exports *declined* by 6 per cent in 1975 (as against a 44 per cent increase in 1974) and prices of semi-processed goods<sup>8</sup> fell by 18 per cent. Export prices of capital goods – a rapidly growing category – decreased by 5 per cent (as against an *increase* of 21 per cent in capital goods import prices). In general, exports of the more 'traditional' items (shoes, textiles, wood products) did not do well – these also tend to have the larger market shares in the United States. Those produced and marketed by the transnationals (automotive products and machinery) generally did better than other exports.

Policies affecting general price competitiveness clearly had an effect on the behaviour of manufactured exports in these recession years. This is apparent from a comparison between Chile and Uruguay, on the one hand, with Mexico and Peru on the other. In Chile – where real devaluation of 37 per cent occurred in 1974-1975 – manufactured exports increased from 226 million dollars in 1973 to 675 million in 1975. Continuation of this growth trend, even at a slower pace, would significantly alter and enhance Chile's development pattern and prospects. Likewise, changes in Uruguay's policies (exchange rate flexibility, export subsidies and import liberali-

<sup>6</sup>The figures in this sentence and in the previous one are for a group of 18 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay. The 1971-1974 data for the 10-country group in table 1 would show increases of 29.5 per cent per annum in exports and 29.0 per cent in external debt.

<sup>7</sup>These percentages are for a group of 5 countries: Brazil, Chile, Colombia, Mexico and Peru.

<sup>8</sup>Including, among others, cocoa butter (20 per cent), soybean oil (31 per cent), castor oil (31 per cent), pig iron (24 per cent), and wood pulp (27 per cent).

zation) made it possible for non-traditional exports to expand by 50 per cent in 1975, thereby offsetting the decline in exports of meat and wool tops caused by EEC restrictions and other adverse market conditions. (Non-traditional exports as a percentage of the total increased from 18 per cent in 1973 to 45 per cent in 1975.) On the other hand, in Peru and Mexico, countries which continued to apply a fixed-rate policy in an inflationary environment, such exports suffered relatively large decreases in volume (14.7 per cent for Mexico in 1975 and 27.9 per cent for Peru). And Mexico's share of United States imports tended to decline in both years.

The conclusions emerging from these preliminary observations are:

(i) General policy measures, especially concerning exchange rates (but also investment policies in the private sector) were important in achieving export growth in the adverse conditions of 1974 and 1975;

(ii) Manufactured exports, while faring better than most staples, were adversely affected by the recession. Some sub-categories did better than others, but in general industrial exports slowed down markedly and prices of many products declined. In some countries the performance of non-traditional agricultural exports was more satisfactory than that of manufactured goods. In these circumstances *general* incentive measures – affecting a broad range of exports – would seem to be more desirable than measures focusing on selected items.

## 2.

### Future export growth

#### (a) *Main characteristics of growth*

The projections in table 1 for the group of 10 Latin American countries sum up those prepared for the individual countries on the basis of uniform assumptions about the external environment (e.g., demand in industrial countries, prices of raw material exports, international inflation). Country growth rates reflect growth potentials and strategy, investment and export plans and policies, and the necessary adjustments in the balance of payments during the projection period. The projections bring out certain key issues to be considered in an export development policy:

(i) Exports have become a leading sector in relation to Latin America's

growth. And they are fundamental for maintaining a country's ability to obtain and service adequate amounts of external capital. The scenario presented in table 1 assumes that real growth of total exports can reach 8-10 per cent per annum – reflecting growth of *all* major categories (agricultural, mineral and manufacturing); manufactured exports would increase by 10-15 per cent per annum, a good growth rate, but below the super-growth levels (23 per cent) achieved in the early seventies. Terms of trade are projected to improve only marginally for the remainder of the decade. Export growth lower than the projections would depress GDP growth because of the direct impact of the export sector on the economy, and the reduced

foreign exchange available for importing investment goods; capital inflows would also be adversely affected, with the consequent aggravation of the cut in external resources;

(ii) The projection assumes that imports can be reduced from 11 per cent of GDP in 1974 and 1975 to less than 9 per cent by the late seventies (as compared with 10 per cent in 1971-1973; in 1974 imports were somewhat inflated by inventory building in some countries). A decline in the import ratio would seem to be feasible, given the possibilities of adjusting to the new external environment (which in some countries has already entailed some real devaluation of the exchange rate) and the plans for import substitution projects, especially in Brazil (e.g., capital goods, fertilizers and steel). Combining policies which will reduce imports with those which will permit a resumption of vigorous export growth may prove to be a difficult task in certain cases;

(iii) Overall GDP growth would accelerate to 6-7 per cent. Significantly lower growth rates would not be compatible with the objective of improving the levels of living of the lowest income groups;

(iv) The external resource gap would decline progressively (from 2.8 per cent in 1975) and turn into a small surplus after 1979. This turn-around, if achieved and sustained, would, of course, be the most important single factor in containing the build-up of external debt. Interest on debt outstanding has risen substantially in the last few years—because of both the hardening of terms and the higher level of debt—and is expected to remain a substantial charge on available resources (3.5 thousand million dollars in 1975 and 7 thousand million in 1980). In all, the build-up of

external debt would decelerate in relation to export earnings—12 per cent per annum growth in debt in 1975-1980 as against 18 per cent in export earnings.

Balance-of-payments and growth prospects are, of course, highly sensitive to increases in petroleum and mineral production. Without substantial new oil production, countries that are now self-sufficient in oil, or nearly so, would have to step up their imports considerably. Moreover, in most countries other than the petroleum exporters, increased exports of mineral products will be fundamental for the maintenance of the growth momentum achieved in the past decade. This is true, for example, for Peru and Colombia (phosphate, coal, nickel, copper, and petrochemical developments). These projects will require substantial external capital investments, many of which will not bear fruit until well into the eighties. In Brazil both major agricultural export increases (e.g., soya beans) and mineral exports (e.g., iron ore) are key elements in the export growth scenario. Besides Brazil, agricultural exports will play a key role in Argentina, Uruguay, Paraguay, and Colombia. Mineral and agricultural products are essential in supplementing the potential growth of manufactured exports.

The projections present one possible scenario for the medium-term growth of the major Latin American countries. They should definitely not be regarded as a forecast, and, as will be clear from the discussion in the subsequent subsections, several comments should be made on them which can be briefly summarized as follows:

(i) The real growth rate for *total* exports—9 per cent or more per annum in 1978-1980—is well above the performance in 1971-1973 (when the average

was 5.6 per cent). This improvement is related primarily to exports of staples, both agricultural and mineral, in an environment of marginally improving terms of trade;

(ii) Manufactured export growth is projected at what must be regarded as a moderate level (averaging 12.8 per cent for 1978-1980 in real terms). The rate of growth of imports in the most important market for Latin American exports, the OECD countries, would reach 15 per cent, assuming a GDP growth rate of 5 per cent and an income-elasticity of 3. Latin American manufactured exports would exceed the 15 per cent growth rate if they continued to increase their share in total OECD imports, mainly by displacing supplies from such developed countries as Italy and Japan, an achievement which would exempt Latin American exports from being affected by import restrictions in industrial countries;

(iii) Vigorous export promotion policies would require that countries, in adjusting their imports, should refrain from direct controls and maintain a flexible, 'realistic' exchange rate policy, and confine import substitution to economically justifiable projects. Such policies need not imply higher import levels than those envisaged in table 1, but the attainment of high growth rates for manufactured exports could easily entail levels of imports above those envisaged in the projections;

(iv) It is conceivable therefore that the growth-cum-adjustment policies would result in higher levels of both exports and imports. In these circumstances the resource gap—and hence the accumulation of new debt—could continue to decline progressively in the late seventies. At the same time, GDP growth would come closer to the 8 per

cent rate which is more compatible with the creation of sufficient employment opportunities than the 7 per cent rate envisaged for 1980 in table 1.

#### (b) *External factors determining export growth*

Crucial external factors are GDP growth rates in customer countries, income-elasticities of demand for imports in these countries, liberalization of import tariffs and restrictions, and shares of less developed countries' (LDCs') products in importing markets.

Given the uncertainties surrounding any forecast dependent on as many variables as affect LDC exports, and the poor record of most past projections and forecasts, it is futile to claim precision for the projections underlying table 1. Certain identifiable changes in the major factors pinpoint several of the policy features of interest to LDC export growth.

Official projections suggest that the growth of industrial markets in the late seventies would be about the same as the favourable 1971-1973 record.<sup>9</sup> Yet one can have doubts as to the realism of these projections for planning industrial export policies. The industrial countries

<sup>9</sup>The growth rates of the recovery years, 1976 and 1977, are most likely to turn out higher than those of the recession years, 1974 and 1975. For the intermediate-term outlook a comparison between 1978-1980 and 1971-1973 is more meaningful. For these years the actual figures and those projected by OECD are:

	1971- 1973	1978- 1980	1981- 1985
United States	4.3	4.8	4.6
Japan	8.7	6.8	6.4
Western Europe	4.2	4.8	4.6
OECD total	5.1	5.1	4.9

are still suffering from higher unemployment and inflation rates than they experienced in the early seventies. While inflation at present is lower than in the previous 12 months, concern with reducing it further continues to be a central element in the policies of major industrial countries. This concern can hardly be considered a passing phenomenon, as the persistence of inflation may, in fact, be influenced by deep-seated structural, institutional and social factors. In such an environment, attempts to hold back inflation may dampen growth performance.

Even at a somewhat reduced rate of expansion the OECD market would remain a major growth factor for Latin American exports, because of its large size and the relatively high income-elasticity of imports.<sup>10</sup>

Concern with unemployment is bound to make industrial countries more sensitive to increases in imports of labour-intensive products as well as of other products where imports offer severe competition to existing domestic industries, even if the demonstrable employment effects of further import liberalization are small. This may be particularly relevant for the products whose exports grew most rapidly in 1967-1973, and in which market shares have increased substantially (viz, clothing, textiles, wood and leather products, electrical machinery<sup>11</sup>).

<sup>10</sup> Based on an analysis of data of manufactured exports from Hong Kong and on studies of the United States and West German markets (by M. E. Kreinin and Hans H. Glismann). Donges and Riedel point to an income-elasticity of about 3. (See Juergen B. Donges and James Riedel, *The Expansion of Manufactured Exports in Developing Countries: An Empirical Assessment of Supply and Demand Issues*, Kiel Institute of World Economics, Working Paper No 49, June 1976, pp. 38-39.)

A relatively small group of products (clothing, textiles and electrical machinery) alone make up close to one-half of total LDC manufactured exports; for these products, import market shares in the major customer countries (United States and Japan) can no longer be regarded as small. On the other hand, a more basic consideration is the share of LDC imports in the *total* market of the developed countries. These total market shares are still very modest for the majority of products, although for some of the most rapidly growing LDC export products they have increased in the last decade.<sup>12</sup> Moreover, LDC exports have progressively displaced imports from developed countries in a dynamic process of adaptation to shifting comparative advantage. Total market shares of LDCs are as yet negligible for non-electrical machinery and other capital goods – products which could form the

<sup>11</sup> In the United States import market LDC shares have increased significantly for several commodities:

	1967	1974
Clothing	40	74
Travel goods and handbags	33	68
Wood and cork manufactures	38	55
Electrical machinery	10	45
Textiles	40	45
Leather and leather products	24	43

(See Donald B. Keesing and Phi Anh Plesch, "Industrial Countries' Manufactured Imports from Developing Countries", IBRD (mimeographed text), May 5, 1976, table 6.)

<sup>12</sup> LAFTA's manufactured exports to the developed countries amounted to 2 thousand million dollars in 1973, compared with a total market for manufactured goods in the developed countries of close to 2 billion dollars (\$ 2 000 000 000 000).

spearhead of the new export growth phase of key LDCs.<sup>13</sup>

In the sixties and early seventies, LDC exports benefited considerably from the Kennedy Round of liberalization of import tariffs and restrictions.<sup>14</sup> In the future the effects of further trade liberalization may well be slower, in particular, in those categories in which LDC exports in the past 10 years enjoyed the most spectacular growth. On the other hand, to the extent that they displace imports from industrial countries, Latin American exports will not suffer from the effects of import restrictions. Cline and Associates, in a Brookings Institution study, conclude that the present Tokyo Round may result in 60 per cent cuts in tariffs and non-tariff agricultural trade barriers which would probably increase exports of the developing countries by 2.5 thousand million and 0.5 thousand million dollars, respectively (in 1974 values), raising their annual non-oil export earnings by somewhat more than 3 per cent. Although politically unlikely, a similar liberalization of textiles would add another 2.3 thousand million dollars in export gains, raising the total gains from import liberalization

to approximately 6 per cent of non-oil exports.<sup>15</sup>

A 3-6 per cent effect—and 3 per cent would seem more certain than 6 per cent—is only a fraction of the year-to-year total export increase projected for the major Latin American countries in table 1. On the other hand, the liberalization effect, excluding textiles, computed by Cline and Associates, is equivalent to one entire year's growth (12 per cent) as projected for total LDC manufactured exports. Absence of renewed import restriction on the part of industrial countries in the 1974-1975 recession augurs well for the continuance of relatively liberal import policies.

The major conclusions which emerge are: (i) continuing manufactured export growth need not be significantly slowed down by restrictive policies in the industrial countries; and (ii) dynamic growth of manufactured exports will need to be accompanied by continuing diversification to incorporate new items—especially those in which even the major LDCs (Brazil, Korea, Taiwan) are still in the early stages of development.<sup>16</sup> These new exports—capital goods, non-electrical machinery and other technologically more complicated products—will necessitate the opening-up of new lines of production, both for import substitution and for export. Once the LDCs manage to enter the markets for

<sup>13</sup> The relatively small total market shares of LDCs and the role of country substitution (imports from LDCs displacing those from developed countries) are emphasized in Juergen B. Donges and James Riedel, *op. cit.*

<sup>14</sup> Cf. J. M. Finger, "Effects of the Kennedy Round tariff concessions", *The Economic Journal*, Vol. 86, No 341, March 1976. This article also points out that the success of manufactured exports from LDCs resulting from the tariff cuts suggests that LDCs benefit from *general* (most-favoured-nation) tariff reductions, and that a system of general preferences may not be to their advantage in the long run. This conclusion is also stated in the Brookings Institution study quoted below.

<sup>15</sup> William R. Cline, Noboru Kawanabe, T.O.M. Kransjo and Thomas Williams, *Trade, welfare and employment: Effects of multilateral trade negotiations in the Tokyo Round*, Brookings Institution draft, chapter 7, "Trade negotiations and the less-developed countries".

<sup>16</sup> The importance of flexibility in exports is stressed by Hollis B. Chenery in "The Structuralist Approach to Development Policy", *The American Economic Review*, Vol. 65, No 2, May 1975, page 314.

these new products, the potential for further growth is very substantial. Given their present industrial structure, several LDCs should be able to embark upon these new production lines—Brazil and Korea are good examples of countries already preparing themselves for this new phase.

(c) *Domestic factors*

The favourable turn in the trade and exchange policies of Brazil and Colombia initiated in 1968 has since been followed by similar action on the part of Argentina, Chile and Uruguay. Mexico also introduced export incentive measures. Will these policies continue in the face of changing external conditions? On the one hand, since these conditions may, in some respects, be less favourable to export growth than they were in the early seventies, and since competition among LDCs can be expected to intensify in several product lines, export industries in LDCs will press for the continuation of outward-looking policies. They will be supported by those concerned with overall growth and creditworthiness. Without clear continuity in policies, export industries will hesitate to make the substantial investments needed to maintain the forward momentum of the past decade.<sup>17</sup>

On the other hand, the changes in external environment may exert pressures

<sup>17</sup> Outward-looking policies are 'good' for export growth but not necessarily for other objectives, e.g., increasing the lowest incomes and improving income distribution. The consequences of outward-looking policies for employment and real wages are not discussed here. Some of the different views on these policies are mentioned in P. P. Streeten, "Trade strategies for development: Some themes for the seventies", *World Development*, June 1973.

on the maintenance of outward-looking policies, especially flexible exchange rates, in various ways. The control of inflation has become a much more difficult task than in the sixties and early seventies. In the wake of the 1974-1975 recession most Latin American countries will reduce their balance-of-payments deficits, in part because the net inflow of external capital is bound to recede. Hence, the balance of payments will not exert the same contractive effect as it has in the last two years. At the same time, prospects are that external inflation—the rate at which import prices, especially for capital goods, are rising—will proceed at 5-10 per cent per year.

In this environment—and most Latin American countries have themselves inflation rates of 20 per cent or more—continued exchange rate flexibility is the cornerstone of a successful export policy. But this flexibility cannot be taken for granted. When the government encounters increasing difficulties in containing inflation, and external factors exert an inflationary pressure, the exchange rate adjustments themselves may come to be regarded as part of the forces feeding into the process of continued price inflation. In this respect various exchange rate adjustments—mini-devaluations, crawling-peg, managed free rates—have the same disadvantages as universal indexing. Although they are necessary as a defence against the ill effects of (accelerating) inflation on the balance of payments, fitting them into a programme of containing or reducing inflation will cause steady strain. A commitment to maintain and improve the competitiveness of industry—and its integration into world markets—is needed to ensure the continuance of exchange rate flexibility.

The adjustments to the changes in the external environment are putting flexible exchange rate policies under pressure in several other ways.

Reductions in imports have, in some countries, been achieved through increases in direct restrictions, heavier deposit requirements or higher tariffs. The import cost increases effected outside the exchange rate system indirectly put exports at a disadvantage (e.g., in the case of Brazil).

Recovery of major export commodity prices (e.g., those of coffee and copper) will make the overall balance-of-payments case for rate adjustments less apparent. Yet given high domestic inflation rates, adjustments continue to be necessary if manufactured exports are to be competitive.

Greater emphasis on resource-based export developments may divert attention from the need for exchange rate flexibility. The economic case for the mineral and other resource-based export projects has been strengthened by external price changes and, in the case of oil importers, by the greater foreign exchange requirements associated with the higher cost of oil. These projects are less dependent on domestic labour and input costs—in effect they have more of an ‘enclave’ nature—and hence, the case in favour of exchange rate flexibility seems less evident than it is for manufactured exports.

The next phase of industrialization—and in fact also of export diversification—in certain countries, e.g., Brazil, Argentina and Mexico, may involve substantial investment in capital goods industries and other technologically more complicated products. Initially these industries may be primarily oriented toward the domestic market, and they may therefore be less concerned

with the continuation of present export-oriented policies.

(d) *Defence against recession: how stable is the growth path?*

The growth profile given in table 1 does not envisage fluctuations in export demand, prices and volumes. The 1973 oil crisis and the ensuing 1974-1975 recession brought major changes in export prospects, price structures, creditworthiness and investment strategies. While Latin America was in a strong position to make the necessary adjustments, and is now resuming a more vigorous growth trend, it may not be so well fortified to face another recession should one strike in the next 3-5 years. Even after the recovery envisaged in the next few years, the countries represented in table 1 would, in combination, be in a weaker position than they were in 1973:

(i) External debt service would be higher in relation to exports (and the year-to-year increases in exports), and hence countries would be less able to obtain private compensatory financing;

(ii) Imports would be lower in relation to GDP and hence less ‘compressible’, i.e., import reductions might more quickly affect growth;

(iii) Reserves might be lower in relation to imports.

Clearly, if growth rates were to exceed the levels envisaged in table 1, Latin America would be in a stronger position to withstand the adverse impact of external recessions. Continued vigorous growth and internal diversification are the most essential ways of combating external fluctuations. At the same time, closer linkage with the more rapidly growing customer markets will help to mitigate the effects of recessions. Normally, one would expect that faster

growth will make it easier to cope with external fluctuations. Trade with more rapidly growing countries may be subject to less severe reductions or decelerations than trade with slower-growing groupings subject to recessions. It has already been observed that the OECD market will continue to be a major factor in the export growth of Latin America, particularly if the region continues to displace imports from other industrial

countries. On the present world scene it would seem that OPEC and the Latin American region itself are among the more rapidly growing groups and hence should be important export markets. The next section explores to what extent regional trade can contribute to the growth and stability of Latin American exports. This paper leaves aside the question of expanding trade with the non-Latin OPEC countries.

### 3.

## Intra-regional exports

The regional arrangements—LAFTA, the Central American Common Market, the Caribbean Free Trade Association and the Andean Group—have attracted a great deal of attention over the years. The first two of these, at least, exerted considerable influence in the sixties. The liberalization measures of the Andean Group, however, did have an initial impact in the early seventies: but further encouragement of trade—and investment—must await the resolution of crucial issues in the treatment of foreign investment, and agreements on the level of the common external tariff and regional industrial programming. The Andean Group will have to find common ground, in the interest of all, among the divergent economic philosophies of its members. The prospects are that progress will be slow at best—and that it will need to be encouraged by a shared political concern. Yet, even if slow, it could make, eventually, a significant contribution to the development of all members. Only in combination can they begin to form a market of sufficient size for the technologically more compli-

cated industries which constitute the cornerstone of the next major phase of LDC export development.<sup>18</sup>

With growth rates for Latin America projected some 40-50 per cent above those for the OECD, exports to the region should necessarily assume a special place in any country's strategy. What has happened in respect of intra-regional exports, especially of manufactured goods, and what can realistically be done to encourage them?

#### (a) *Regional export trends 1968-1973*

While exports of manufactured goods to all destinations, as well as exports to the region, increased rapidly,

<sup>18</sup> The difficult problems and issues confronting the smaller economies of Central America and the Caribbean are not considered in this paper. Questions of capital transfers to small countries are discussed in Barend A. de Vries, "Development aid to small countries", in Percy Selwyn (ed.), *Development Policy in Small Countries*, London, Croom Helm, Ltd., and Sussex, Institute of Development Studies, 1975.

Table 3  
LAFTA, ARGENTINA, BRAZIL, COLOMBIA AND MEXICO: DIRECTION OF  
MANUFACTURED EXPORTS, 1968 AND 1973

SITC (5-8)-68	1968					1973				
	LAFTA (%)	Argentina (%)	Brazil (%)	Colombia (%)	Mexico (%)	LAFTA (%) of world total	Argentina (%) of world total	Brazil (%) of world total	Colombia (%) of world total	Mexico (%) of world total
<i>World total</i>	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
I. <i>To developed economies</i>	56.0	45.8	48.5	49.7	72.3	59.8	37.6	63.0	59.7	80.3
U.S.A.	38.2	25.7	27.3	26.4	62.7	36.0	17.3	25.9	27.3	66.9
Western Europe <sup>a</sup>	14.2	18.3	17.9	18.1	6.9	16.7	15.8	25.8	19.9	8.9
Other Developed Economies <sup>b</sup>	3.6	1.8	3.3	5.2	2.7	6.8	4.5	11.3	12.5	4.5
II. <i>To developing economies</i>	42.2	50.9	50.4	49.8	27.5	36.7	57.9	34.9	39.9	19.2
LAFTA <sup>c</sup>	35.7	47.3	45.6	28.0	18.3	26.8	53.3	25.9	22.2	11.4
– Andean Group <sup>d</sup>	–	23.9	8.8	19.9	11.5	–	26.3	11.4	18.3	7.0
CACM <sup>e</sup>	–	0.3	–	4.4	5.0	–	1.0	0.7	3.7	3.9
Caribbean area <sup>f</sup>	–	0.1	–	–	–	–	0.2	0.6	4.1	1.3
Other developing economies <sup>g</sup>	6.5 <sup>h</sup>	3.2	4.8 <sup>h</sup>	17.4 <sup>i</sup>	4.2 <sup>i</sup>	9.6 <sup>h</sup>	3.4	7.7	9.9	2.6
III. <i>Centrally planned economies</i> <sup>j</sup>	1.3	3.4	1.1	0.5	0.2	2.6	4.5	2.1	0.4	0.5

Source: U.N. Commodity Trade Statistics (1968-1973).

UNCTAD *International Trade & Development Statistics*, 1976.

<sup>a</sup>Mainly EEC and EFTA countries.

<sup>b</sup>Includes Canada, Japan, Israel, Australia, New Zealand and other developed economies of Asia and Africa.

<sup>c</sup>Latin American Free Trade Association: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

<sup>d</sup>Andean Group: Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela.

<sup>e</sup>Central American Common Market: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua.

<sup>f</sup>Caribbean: Antigua, Bahamas, Barbados, Dominican Republic, Haiti, Jamaica, Netherlands Antilles, Trinidad and Tobago, etc.

<sup>g</sup>All developing economies of Asia, Africa, Europe and Oceania.

<sup>h</sup>Includes CACM and the Caribbean.

<sup>i</sup>Includes the Caribbean.

<sup>j</sup>Includes Socialist countries of Eastern Europe and Asia.

the latter generally tended to lag behind those to industrial countries. Hence, while in 1962-1968 Latin American intra-regional exports grew more rapidly than exports to all destinations, the situation was reversed in 1968-1973:

Latin American manufactured exports<sup>19</sup>  
(Annual growth rates)

	To all destinations	To Latin America
1962-67	31.9	34.1
1967-68	21.2	22.7
1968-73	39.8	32.0

The percentage of Latin American manufactured exports that went to LAFTA tended to shrink in 1968-1973; for LAFTA exports in the aggregate, it declined from 35.7 per cent in 1968 to 26.8 per cent in 1973.<sup>20</sup> From the data presented, it appears that the drop in LAFTA shares during this period occurred in the exports pertaining to the major industrial commodity categories, the main exception being exports of chemicals.<sup>21</sup>

<sup>19</sup> Data for 1962-1967 and 1967-1968 from Hollis B. Chenery and Helen Hughes, "Industrialization and trade trends: Some issues for the 1970s", in Helen Hughes (ed.), *Prospects for Partnership, Industrialization and Trade Policies in the 1970's*, IBRD and The Johns Hopkins University Press, 1973, tables 1 - 5. Data for 1968-1973 for LAFTA countries only: table 2 in the present article and Annex table 1.

<sup>20</sup> Table 2 and Annex tables 1 to 6 give data for all manufactured exports and major SITC sub-groups for LAFTA as a whole, Argentina, Brazil, Colombia and Mexico. Annex table 5 presents data on Colombian exports to the Andean sub-region. The direction of manufactured exports is shown for LAFTA and for Argentina, Brazil, Colombia and Mexico in table 3.

(i) Brazil's manufactured exports grew most rapidly (52.2 per cent average annual growth in current dollars compared with 39.8 per cent for total LAFTA exports), while the proportions it exported to LAFTA fell most (by 43.2 per cent compared with 24.9 per cent for total LAFTA manufactured exports)<sup>22</sup> (see table 2);

(ii) For the three largest countries, which also have relatively more developed industrial structures (Argentina, Brazil and Mexico), exports of machinery and automotive equipment grew relatively faster than other sub-groups, with the exception of 'miscellaneous' exports from Brazil and Colombia;

(iii) For the machinery and automotive equipment group, and for miscellaneous products, the faster was the growth of exports to all destinations, the sharper tended to be the decline in the shares going to LAFTA.

There are two noteworthy exceptions where the proportions exported to the region increased: Brazilian exports of motor vehicles (the LAFTA share

<sup>21</sup> Chemicals make up the smallest of the 4 sub-groups studied —accounting for 1.6 per cent of total exports in 1968 and 2.0 per cent in 1973. LDC exports of chemicals to industrial countries tended to lag behind other LDC manufactured exports: imports of chemicals of fifteen industrial countries from LDCs showed an increase of 15.4 per cent per annum in 1967-1973 as against 30.0 per cent for all manufactures. Similarly, the share of United States imports of chemicals and compounds from LDCs declined from 31 per cent in 1967 to 19 per cent in 1973 and 21 per cent in 1974, as against an increase for miscellaneous manufactures from 19.5 per cent in 1967 to 26.6 per cent in 1973, and 32.3 per cent in 1974 (see Keesing and Plesch, *op. cit.*, tables 3 and 6).

<sup>22</sup> Tyler (*op. cit.*, p. 270) also observes that LAFTA's importance as a determining force and stimulant of Brazilian manufactured exports has been curtailed since 1967.

increased from 61.8 per cent in 1968 to 87.1 per cent in 1973), and Colombian exports of machinery and transport equipment to LAFTA and to the Andean Group (the LAFTA share *increasing* from 55.7 per cent to 62.7 per cent). The proportion of Colombia's non-coffee exports (agricultural and manufactured) destined to the Andean Group also rose from 11.6 per cent to 15.2 per cent.<sup>23</sup>

As can be expected, intra-regional trade is most important where location and geography favour trade with neighbouring countries. About one-half of Argentina's manufactured exports goes to LAFTA —and this share even increased in the period for all manufactures and for three of the four sub-groups.<sup>24</sup> On the other hand, the proportion of Mexican exports going to LAFTA is small, and it declined from 18 per cent to 11 per cent.

(b) *What prospects for the future?*

Even after noting the exceptions, and they are important, the conclusion remains that the pull of trade with an increasingly integrated world market was stronger than the pull exerted by demand within the region. Perhaps one

<sup>23</sup> Of Colombia's exports to the Andean Group in 1974 only 10 per cent was covered by the liberalization programme (information from F. Thoumi, based on unpublished *Incomex* data).

<sup>24</sup> A closer inspection of Argentina's exports indicates that for several of the most rapidly growing items, the LAFTA share actually did decline —as in the case of similar categories in the other countries— e.g., paper and paper-board, textile yarn and thread, agricultural machinery and machines n.e.s., non-electrical. It is also worth while to note that even in Argentina the share of miscellaneous exports to LAFTA decreased sharply (see Annex table 2).

should say that given the dynamic increase in manufactured exports to the industrial countries, it is amazing that intra-regional exports performed as well as they did. It is possible that in the two recession years, 1974 and 1975, the shares of exports going to LAFTA increased somewhat, as demand in the region suffered declines less steep than those in the industrial countries. Nevertheless, over the next several years the forces pulling Latin America into a broader world market are likely to remain strong, especially if the relatively more developed Latin American countries succeed in entering industrial country markets for machinery and other technologically more complicated products. Interdependence with the industrial countries will also be enhanced by the development of resource-based exports, which, as has been noted, are expected to be important for certain countries (e.g., Peru and Colombia).<sup>25</sup>

Given the close interdependence with the rest of the world, there is clear need for adequate compensatory financing mechanisms to help offset the effects of external fluctuations and recessions. These mechanisms will make it possible to develop export production along the most economic lines —and without undue subsidization burdens or intra-regional protection. Yet, given the imperfections which are likely to remain in any system of compensatory arrangements, it would seem desirable that regional export measures supplement the extra-regional forces which have exerted themselves strongly since the late sixties. These measures must necessarily

<sup>25</sup> The integration of Latin America into the world economy is the special focus of *Latin America, A Broader World Role*, by Adalberto Krieger Vasena and Javier Pazos, London, 1973.

be different in nature in different countries, allowing for considerable variations in the importance of exports to the region. In 1973, Argentina exported 56 per cent of its manufactured goods to LAFTA and Central America, compared with a corresponding figure of 15 per cent for Mexico.

The development of exports will necessarily have to exploit the considerable differences in natural endowments existing among some countries. Agricultural and food exports may, therefore, be at least as important as manufactured exports in increasing intra-regional trade, as is evident from the experience of Colombia, which significantly enlarged its percentage of non-coffee agricultural exports to the Andean sub-region. Once again, this point stresses the importance of adopting incentive measures in relation to a broad range of items, both agricultural commodities and manufactures.

A further measure needed to boost intra-regional exports is a strengthening of the complementarity of export production. This will call for close sub-regional co-operation in the location of production of intermediate goods, machinery and transport equipment, especially among the middle-sized countries. Hence special importance attaches to the efforts at co-ordination of investment in certain key industries within the Andean sub-region. Assuming it is carried out without excessive intra-regional protection, industrial co-ordination of this kind may, at least over the longer term, make an important contribution to export development. To be successful, this type of industrial co-operation will require direct assistance from national governments and international finance, both public and private, in addition to receiving the necessary price incentives.

Annex  
Table 1  
EXPORTS FROM LAFTA COUNTRIES TO THE LAFTA REGION<sup>a</sup>

SITC classification	SITC code	Composition of exports to all destinations (millions of dollars)		Composition of exports to all destinations (%)		Composition of exports to LAFTA (%)		Exports to LAFTA as percentage of total, by categories		Average annual growth of exports to LAFTA		Average annual growth of total exports	
		1968	1973	1968	1973	1968	1973	1968	1973	1968-1973	1970-1973	1968-1973	1970-1973
Total exports	0,1,2,3,4,5,6,7,8	10 390	22 150	100.00	100.00	100.00	100.00	9.7	10.8	19.0	23.1	16.4	20.5
I. Manufactured goods	5,6,7,8,-68	675	3 595	6.5	16.2	24.0	40.1	35.7	26.8	32.0	31.6	39.8	43.3
(1) Basic and miscellaneous manufactures	6,8,-68	380	2 080	3.7	9.4	12.0	17.6	32.2	20.4	28.2	28.3	40.5	44.8
(2) Chemicals	5	170	445	1.6	2.0	4.6	7.3	27.1	39.3	30.6	33.9	21.2	25.5
(3) Machinery and transport equipment	7	125	1 070	1.2	4.8	7.2	15.2	58.4	34.1	38.0	34.5	54.0	51.5
II. Non-manufactured goods	0,1,2,3,4,68	9 710	18 190	93.5	82.1	75.7	58.6	7.9	7.8	13.0	17.9	13.4	17.0
(1) Food items	0+1+22+4	3 890	8 600	37.4	38.8	37.1	29.5	9.6	8.3	13.6	19.6	17.2	20.1
(2) Agricultural raw materials	2-(22+27+28)	910	1 180	8.8	5.3	13.4	6.0	14.8	12.3	1.5	-1.3	5.3	9.5
(3) Crude fertilizers and minerals, metalliferous ores and metal scrap	27+28	750	1 510	7.2	6.8	1.2	2.0	1.6	3.1	31.3	20.5	15.0	11.8
(4) Mineral fuels, lubricants and related materials	3	3 010	5 660	29.0	25.6	16.3	16.8	5.5	7.2	19.7	37.8	13.5	22.7
(5) Non-ferrous metals	68	1 150	1 240	11.1	5.6	7.7	4.4	6.8	8.5	6.1	0.0	1.5	-1.1

Source: Based on UN Commodity Trade Statistics (1968-1973);  
UNCTAD International Trade and Development Statistics (1976).

<sup>a</sup>LAFTA: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

Annex  
Table 2  
EXPORTS FROM ARGENTINA TO LAFTA<sup>a</sup>

SITC classification	SITC code	Composition of exports to all destinations (thousands of dollars)		Composition of exports to all destinations (%)		Composition of exports to LAFTA (%)		Exports to LAFTA as percentage of total, by categories		Average annual growth of exports to LAFTA		Average annual growth of total exports	
		1968	1973	1968	1973	1968	1973	1968	1973	1968-1973	1970-1973	1968-1973	1970-1973
Total exports	0,1,2,3,4,5,6,7,8,9	1 367 865	3 266 003	100.00	100.00	100.00	100.00	24.7	24.4	18.7	29.5	19.0	22.5
I. Manufactured goods	5+6+7+8-68	165 923	730 103	12.1	22.4	23.2	48.8	47.3	53.3	37.7	34.0	34.5	43.7
(1) Chemicals	5	49 929	94 496	3.7	2.9	5.2	6.0	35.5	50.7	22.0	20.5	13.6	19.6
(2) Basic manufactures, excluding non-ferrous metals	6-68	57 711	288 060	4.2	8.8	5.9	13.7	34.7	38.0	40.5	43.1	38.0	49.3
(a) Leather	611	17 155	97 551	1.3	3.0	0.04	0.5	0.7	4.4	108.0	231.0	41.5	40.5
(b) Paper and paperboard	641	660	11 200	0.1	0.3	0.1	0.8	68.6	57.6	70.0	68.0	76.0	101.0
(c) Textile yarn and thread	651	513	14 538	0.04	0.5	0.05	0.5	31.8	25.4	86.7	61.2	95.0	138.0
(d) Iron and steel shapes	673	14 285	71 582	1.0	2.2	1.2	3.7	28.2	41.6	49.4	60.2	38.1	65.3
(3) Machinery and transport equipment	7	35 842	254 944	2.6	7.8	7.5	24.8	71.0	77.4	50.5	59.0	48.0	45.5
(a) Agricultural machinery	712	2 357	21 832	0.2	0.7	0.7	2.4	96.1	86.8	53.0	53.5	58.0	60.6
(b) Office machines	714	11 690	32 274	0.9	1.0	1.4	2.2	40.3	53.4	29.6	17.7	22.5	16.4
(c) Machinery n.e.s., non-electrical	719	4 191	41 643	0.3	1.3	1.1	4.1	88.1	78.4	54.0	55.0	58.5	50.2
(d) Electrical machinery, n.e.s.	729	1 446	10 895	0.1	0.3	0.4	0.8	86.5	59.2	38.9	37.0	49.8	58.0
(e) Road motor vehicles	732	4 294	86 719	0.3	2.7	1.1	9.9	88.3	90.6	83.5	107.6	82.5	109.0
(4) Miscellaneous manufactured goods	8	22 441	92 603	1.6	2.8	4.5	4.3	68.3	37.2	17.6	24.0	32.8	35.1
(a) Clothing, not of fur	841	2 514	13 061	0.2	0.4	—	0.1	—	3.4	—	26.5	39.0	49.0
(b) Fur clothing, etc.	842	1 264	14 911	0.1	0.5	—	—	—	—	—	—	63.0	8.3
(c) Footwear	851	176	20 284	0.01	0.6	—	—	—	0.6	—	—	—	—
(d) Printed matter	892	15 251	24 373	1.1	0.8	3.7	2.5	81.5	81.3	9.8	17.4	9.9	17.6
II. Residual	0+1+2+3+4+68+9	1 201 942	2 535 900	87.9	77.6	76.8	51.2	21.6	16.1	9.7	18.5	16.1	18.5
(a) Meat, fresh, chilled	011	204 948	639 902	15.0	19.6	3.9	4.3	6.5	5.4	21.0	29.6	25.6	28.0
(b) Wheat, etc., unmilled	041	139 085	273 775	10.2	8.4	28.0	16.9	68.1	49.2	7.3	22.8	14.5	29.6
(c) Cereals, n.e.s., unmilled	045	45 687	200 488	3.3	6.1	0.7	3.6	5.0	14.2	65.5	70.0	34.3	24.5
(d) Sugar and honey	061	17 858	102 958	1.3	3.2	0.6	2.0	10.4	15.5	54.2	103.1	42.0	83.0
(e) Wool and animal hair	262	111 296	188 202	8.1	5.8	3.5	1.2	10.7	5.2	(2.0)	(11.0)	11.1	28.5

Source: Based on U N Commodity Trade Statistics.

<sup>a</sup>LAFTA: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

Annex  
Table 3  
EXPORTS FROM BRAZIL TO LAFTA<sup>a</sup>

SITC classification	SITC code	Composition of exports to all destinations (thousands of dollars)		Composition of exports to all destinations (%)		Composition of exports to LAFTA (%)		Exports to LAFTA as percentage of total, by categories		Average annual growth of exports to LAFTA		Average annual growth of total exports	
		1968	1973	1968	1973	1968	1973	1968	1973	1968-1973	1970-1973	1968-1973	1970-1973
		<i>Total exports</i>	0,1,2,3,4,5,6,7,8,9	1 881 316	6 199 192	100.00	100.00	100.00	100.00	10.3	9.0	23.5	22.5
I. <i>Manufactured exports</i>	(5-8)-68	152 680	1 216 918	8.1	19.6	36.1	56.6	45.6	25.9	35.2	30.2	52.2	49.8
(1) Chemicals	5	27 052	109 726	1.4	1.8	2.0	4.7	14.1	24.1	47.3	45.0	32.3	41.5
(2) Basic manufactures, excluding non-ferrous metals	6-68	79 912	557 664	4.3	9.0	18.2	18.5	44.1	18.5	23.9	15.9	47.8	39.8
(3) Machinery and transport equipment	7	41 096	303 842	2.2	4.9	15.0	26.8	70.4	49.2	38.9	33.2	49.2	46.1
(a) Electrical and non-electrical machinery	71+72	37 321	219 472	2.0	3.5	14.6	18.1	75.7	46.1	29.0	20.2	42.5	38.7
(b) Road motor vehicles	732	972	61 687	0.1	1.0	0.3	8.4	61.8	87.1	138.8	112.4	129.2	86.6
(4) Miscellaneous manufactured goods	8	4 622	245 685	0.3	4.0	0.9	6.5	37.0	14.8	85.0	94.0	111.2	120.8
(a) Clothing	84	462	88 682	0.02	1.4	-	3.2	-	20.2	-	197.3	186.2	208.8
(b) Footwear	851	450	93 478	0.02	1.5	-	0.1	-	0.5	-	-	190.7	124.4
II. <i>Other exports</i>	(0-4)+9+68	1 728 636	4 982 274	91.9	80.4	63.9	43.4	7.1	4.9	14.4	14.9	23.7	28.0
(1) Food and live animals	0	1 212 595	3 053 096	64.5	49.2	31.6	16.6	5.0	3.0	8.8	8.2	20.2	24.4
(2) Beverages and tobacco	1	20 476	65 949	1.1	1.1	0.5	1.3	4.9	10.7	47.5	60.1	26.3	24.2
(3) Crude materials excluding fuels	2	431 010	1 453 806	22.9	23.5	29.8	17.4	13.4	6.7	11.0	12.6	27.5	31.8
(4) Mineral fuels, etc.	3	638	83 564	0.03	1.4	0.2	3.3	61.9	21.9	115.1	109.1	165.1	73.5
(5) Animal and vegetable oils and fats	4	51 881	194 278	2.8	3.1	0.3	1.8	1.0	5.0	79.2	90.5	30.2	42.1
(6) Goods not classified by kind	9	11 612	119 829	0.6	1.9	1.4	2.3	23.7	10.9	36.5	8.7	58.0	67.5
(7) Non-ferrous metals	68	421	11 804	0.02	0.2	0.1	0.8	50.6	34.4	80.0	9.6	95.0	27.4

Source: Based on U N Commodity Trade Statistics.

<sup>a</sup>LAFTA: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

Annex  
Table 4  
EXPORTS FROM COLOMBIA TO LAFTA<sup>a</sup>

SITC classification	SITC code	Composition of exports to all destinations (thousands of dollars)		Composition of exports to all destinations (%)		Composition of exports to LAFTA (%)		Exports to LAFTA as percentage of total, by categories		Average annual growth of exports to LAFTA		Average annual growth of total exports	
		1968	1973	1968	1973	1968	1973	1968	1973	1968-1973	1970-1973	1968-1973	1970-1973
Total exports	0,1,2,3,4,5,6,7,8,9	558 278	1 175 512	100.00	100.00	100.00	100.00	6.1	9.5	27.0	6.7	16.1	17.6
Non-coffee exports	(0-9)-07	206 804	577 584	37.0	49.1	88.6	92.2	14.6	17.8	27.8	15.9	22.8	29.8
I. Manufactured goods	(5-8)-68	53 334	307 311	9.6	26.1	43.7	61.1	28.0	22.2	35.5	58.5	41.9	73.8
(1) Chemicals	5	8 621	35 647	1.5	3.0	12.9	19.4	51.3	60.7	38.0	51.5	42.5	60.0
(2) Basic manufactures, excluding non-ferrous metals	6-68	35 921	205 464	6.4	17.5	20.3	22.4	19.3	12.2	29.2	62.7	41.7	76.0
(a) Leather, dressed fur . . .	61	3 510	18 502	0.6	1.6	0.3	-	3.3	-	-	-	39.7	48.2
(b) Textile yarn, fabrics	65	9 304	54 250	1.7	4.6	3.4	3.6	12.4	7.5	28.8	70.0	42.3	62.0
(3) Machinery and transport equipment	7	4 166	17 719	0.8	1.5	6.6	9.9	53.7	62.7	37.8	55.5	34.5	47.0
(a) Machinery, electrical and non-electrical	71+72	3 907	14 903	0.7	1.3	6.6	7.9	57.2	59.2	31.7	50.0	30.7	45.0
(4) Miscellaneous manufactured goods	8	4 639	48 482	0.8	4.1	3.8	9.4	28.5	21.6	51.2	68.0	78.5	97.5
(a) Clothing	84	515	19 221	0.1	1.6	0.3	2.3	21.6	13.2	87.0	-	106.5	160.0
II. Other exports	(0-4)+9+68-07	153 470	270 273	27.4	23.0	44.9	31.1	10.0	12.7	17.8	(11.0)	12.0	9.4
(a) Meat and preparations	01	1 471	40 945	0.3	3.5	3.4	5.7	79.5	15.4	40.0	103.6	94.0	105.5
(b) Fish and preparations	03	3 195	10 685	0.6	0.9	-	-	-	-	-	-	27.2	30.3
(c) Cut flowers, foliage	292.7	277	8 415	0.1	0.7	-	-	-	-	-	-	97.5	105.0

Source: Based on U N Commodity Trade Statistics.

<sup>a</sup>LAFTA: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

Annex  
Table 5  
EXPORTS FROM COLOMBIA TO THE ANDEAN GROUP<sup>a</sup>

SITC classification	SITC code	Composition of exports to all destinations (thousands of dollars)		Composition of exports to all destinations (%)		Composition of exports to the Andean Group (%)		Exports to the Andean Group as percentage of total by categories		Average annual growth of exports to the Andean Group		Average annual growth of total exports	
		1968	1973	1968	1973	1968	1973	1968	1973	1968-1973	1970-1973	1968-1973	1970-1973
Total exports	0,1,2,3,4,5,6,7,8,9	558 278	1 175 512	100.00	100.00	100.00	100.00	4.3	7.5	29.6	12.1	16.1	17.6
Non-coffee exports	(0-9)-07	206 804	577 584	37.0	49.1	99.5	99.8	11.6	15.2	29.6	12.4	22.8	29.8
I. Manufactured goods	(5-8)-68	53 334	307 311	9.6	26.1	44.2	63.8	19.9	18.3	39.5	56.7	41.9	73.8
(1) Chemicals	5	8 621	35 647	1.5	3.0	13.4	17.6	37.2	43.4	36.9	38.2	42.5	60.0
(2) Basic manufactures, excluding non-ferrous metals	6-68	35 921	205 464	6.4	17.5	17.7	25.5	11.8	10.9	39.5	75.7	41.7	76.0
(a) Leather, dressed fur . . .	61	3 510	18 502	0.6	1.6	—	—	—	—	—	—	39.7	48.2
(b) Textile yarn, fabrics	65	9 304	54 250	1.7	4.6	3.3	3.6	8.6	5.8	31.3	114.2	42.3	62.0
(3) Machinery and transport equipment	7	4 166	17 719	0.8	1.5	8.7	11.5	50.1	57.0	37.1	52.5	34.5	47.0
(a) Machinery electrical and non-electrical	71+72	3 907	14 903	0.7	1.3	8.7	8.9	53.4	52.5	30.3	45.8	30.7	45.0
(4) Miscellaneous manufactured goods	8	4 639	48 482	0.8	4.1	4.4	9.2	22.7	16.8	50.7	67.5	78.5	97.5
(a) Clothing	84	515	19 221	0.1	1.6	—	2.0	—	9.4	—	—	106.5	160.0
II. Other exports	(0+4)+9+68-07	153 470	270 273	27.4	23.0	55.3	36.0	8.7	11.7	19.0	(11.6)	12.0	9.4
(a) Meat and preparations	01	1 471	40 945	0.3	3.5	4.9	7.1	79.5	15.4	40.2	107.2	94.0	105.5
(b) Fish and preparations	03	3 195	10 685	0.6	0.9	—	—	—	—	—	—	27.2	30.3
(c) Cut flowers, foliage	292.7	277	8 415	0.1	0.7	—	—	—	—	—	—	97.5	105.0

Source: Based on U N Commodity Trade Statistics (1968-1973).

<sup>a</sup>Andean Group: Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela.

Annex  
Table 6  
EXPORTS FROM MEXICO TO LAFTA<sup>a</sup>

SITC classification	SITC code	Composition of exports to all destinations (thousands of dollars)		Composition of exports to all destinations (%)		Composition of exports to LAFTA (%)		Exports to LAFTA as percentage of total by categories		Average annual growth of exports to LAFTA		Average annual growth of total exports	
		1968	1973	1968	1973	1968	1973	1968	1973	1968-1973	1970-1973	1968-1973	1970-1973
Total exports	0,1,2,3,4,5,6,7,8,9	1 110 152	2 631 496	100.00	100.00	100.00	100.00	5.6	6.6	22.6	23.2	18.8	29.8
I. Manufactured goods	(5-8)-68	225 597	1 102 871	20.3	41.9	66.0	72.4	18.3	11.4	24.9	21.5	37.3	41.2
(1) Chemicals	5	68 516	168 973	6.2	6.4	23.1	24.4	21.1	25.0	24.0	24.6	19.8	19.9
(2) Basic manufactures, excluding non-ferrous metals	6-68	83 362	274 190	7.5	10.4	12.6	7.5	9.5	4.7	10.5	5.4	26.8	37.1
(a) Textile yarn and thread	651	15 375	67 349	1.4	2.6	0.2	0.1	0.8	0.2	-	(30.0)	34.3	60.6
(b) Cotton fabrics, woven	652	2 027	43 628	0.2	1.7	-	-	-	-	-	-	84.2	116.6
(c) Glassware	665	5 646	17 526	0.5	0.7	0.8	0.3	9.0	3.4	-	(21.5)	25.3	30.2
(3) Machinery and transport equipment	7	36 427	463 658	3.3	17.6	14.1	26.0	24.3	9.7	38.5	25.8	66.3	53.3
(a) Machinery non-electrical	71	19 798	199 477	1.8	7.6	7.6	16.2	23.9	14.0	42.8	15.9	58.5	59.6
(b) Electrical machinery	72	8 573	136 013	0.8	5.2	4.9	5.4	36.0	6.8	24.6	45.2	73.3	35.7
(c) Road motor vehicles	732	3 223	97 068	0.3	3.7	0.3	2.9	6.2	5.2	92.0	69.2	97.6	80.0
(4) Miscellaneous manufactured goods	8	37 301	196 050	3.4	7.5	16.1	14.5	27.0	12.8	20.1	21.1	20.1	21.1
(a) Clothing	841	4 648	67 144	0.4	2.6	-	0.1	-	-	-	-	70.5	95.0
II. Other exports	(0-4)+9+68	1 083 938	1 528 625	79.7	58.1	32.7	27.4	2.3	3.1	18.4	28.2	11.5	23.5
(a) Live animals	001	26 214	91 317	2.4	3.5	0.2	-	0.4	-	-	-	28.3	43.5
(b) Vegetables, etc., fresh, preserved	054	44 669	178 985	4.0	6.8	0.8	2.4	1.1	2.3	58.2	150.5	32.0	50.7
(c) Coffee	071	69 260	168 731	6.2	6.4	-	0.3	-	0.3	-	-	19.5	31.4
(d) Cotton	263	122 398	166 454	11.0	6.3	7.9	7.9	4.0	8.2	22.9	36.9	6.3	26.0
(e) Silver, platinum	681	73 125	186 336	6.6	7.1	0.3	0.5	0.3	0.4	30.0	-	20.5	86.5
(f) Copper	682	11 452	41 662	1.0	1.6	1.4	1.8	7.6	7.7	29.7	33.6	29.4	59.4

Source: Based on U N Commodity Trade Statistics.

<sup>a</sup>LAFTA: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

## Annex

Table 7

## DYNAMIC MANUFACTURED EXPORTS OF BRAZIL

*(Thousands of dollars)*

<i>SITC</i>	<i>PRODUCT</i>	<i>1968</i>	<i>1973</i>
897	Goldsmiths' and silversmiths' wares, including jewellery	594	10 631
892	Printed matter	—	11 356
851	Footwear	450	93 478
842	Fur, fur clothing, etc.	—	5 610
841	Clothing, not of fur	462	83 072
831	Travel goods, handbags	—	8 280
821	Furniture	502	10 297
732	Road motor-vehicles,	972	61 687
724	Telecommunications equipment	734	46 191
722	Electric power machinery, switchgear	913	11 337
717	Textile and leather machinery	2 542	14 616
714.2	Accounting machines and computers	833	4 960
712	Agricultural machinery	566	9 229
711.5	Internal combustion engines, other than for aircraft	111	8 645
673	Iron and steel shapes	2 682	19 185
671	Pig-iron	5 656	47 235
665	Glassware	—	2 076
661	Cement	267	3 536
656	Textile and other made-up articles, n.e.s.	1 116	21 589
654	Lace, ribbons, tulle, etc.	—	1 813
653	Woven textiles, non-cotton	7 301	42 586
652	Cotton fabrics, woven	1 831	53 946
651	Textile yarn and thread	2 727	97 522
641	Paper and paperboard	—	23 883
629	Rubber articles, n.e.s.	553	6 362
581	Plastic materials	318	5 991
561	Fertilizers, manufactured	—	2 279

Annex  
Table 8

## DYNAMIC MANUFACTURED EXPORTS OF ARGENTINA

*(Thousands of dollars)*

<i>SITC</i>	<i>PRODUCT</i>	<i>1968</i>	<i>1973</i>
851	Footwear	176	20 284
842	Fur, fur clothing, etc.	1 264	14 911
841	Clothing, not of fur	2 514	13 061
732	Road motor-vehicles	4 294	86 719
719.9	Machine parts, accessories, n.e.s.	842	7 385
719.6	Non-electrical machines, n.e.s.	1 076	9 812
719.2	Pumps, centrifuges	593	11 540
718	Machines for special industries	662	16 342
714.2	Accounting machines, computers	5 302	19 483
712	Agricultural machinery	2 357	21 832
674	Iron or steel universals, plates, sheets	371	24 977
673	Iron and steel shapes	14 285	71 582
651	Textiles, yarn and thread	513	14 538
611	Leather	17 155	97 551

Table 9

## DYNAMIC MANUFACTURED EXPORTS OF COLOMBIA

*(Thousands of dollars)*

<i>SITC</i>	<i>PRODUCT</i>	<i>1968</i>	<i>1973</i>
841	Clothing, not of fur	515	19 213
673	Iron and steel shapes	—	5 708
667	Pearls, precious and semi-precious stones	1 467	86 622
652	Cotton fabrics, woven	5 076	24 175
651	Textile yarn and thread	3 693	19 988
611	Leather	3 410	17 117
292	Cut flowers	277	8 415

Annex  
Table 10

**DYNAMIC MANUFACTURED EXPORTS OF MEXICO**

<i>SITC</i>	<i>PRODUCT</i>	<i>1968</i>	<i>1973</i>
897.1	Goldsmiths' and silversmiths' wares, including jewellery	1 783	12 408
894	Toys, sporting goods, etc.	2 889	24 464
891	Sound recorders and reproducers	2 115	13 505
862	Photographic and cinematographic supplies	—	7 790
841	Clothing, not of fur	4 648	67 144
734	Aircraft	1 492	23 218
732	Road motor-vehicles	3 223	97 068
724	Telecommunications equipment	3 771	83 912
722.2	Electrical apparatus for making and breaking or for protecting electrical circuits (switchgear, etc.)	2 178	33 479
719.9	Machine parts, accessories n.e.s.	12 124	109 302
714.2	Accounting machines, computers	396	29 330
711.5	Internal combustion engines, other than for aircraft	1 996	31 291
673	Iron and steel shapes	—	9 189
652.1	Grey woven cotton fabrics, unbleached, not mercerized	1 617	28 822
652.2	Woven cotton fabrics, bleached, dyed, mercerized, printed or otherwise finished	410	14 806
651.3	Grey cotton yarn (unbleached), not put up for retail sale	5 536	26 315
642	Articles of paper	1 127	10 260
631	Veneers, plywood, etc., n.e.s.	2 053	10 356
513.3	Inorganic acids	609	24 935

## Comments by Raúl Prebisch\*

I should like first of all to say how much I appreciate having been invited to participate in this meeting: both on account of the meeting itself, which has proved extraordinarily interesting, and because of the opportunity it affords me to comment on an excellent document, on the content of which I unhesitatingly congratulate Mr. de Vries. It is not often that we see economists from the centres discussing questions relating to Latin America and the periphery with Mr. de Vries' lucidity and skill.

I am going to concentrate on the three subjects he chose in the talk we have just heard: projections of the foreign trade of Latin America, trade between the Latin American countries and the external vulnerability of the countries of the region.

1. With regard to the projections, it is very interesting to note that in view of the limitations which the industrial centres will impose on exports from Latin America in the next few years—because of their inflationary situation, their scant likelihood of recovering high growth rates and the resurgence of protectionist policy by which they are adding to the traditional obstacles—Mr. de Vries projects a conservative annual growth rate of 8 to 10 per cent for Latin American exports. This is a satisfactory figure—a few years ago we should even have considered it illusory—but it is not sufficient to ensure an annual growth rate for Latin America of more than 6 or 7 per cent. If it is com-

pared historically with other rates it could be considered high, but it is not so from the standpoint of the need to absorb an increasing labour force at rising levels of productivity.

I should like to digress here and recall some of the remarks which were made yesterday on what we have come to call the consumer society. The consumer society is incompatible with a socially meaningful dynamic economy; if we are not capable of demolishing it, to a greater or lesser extent according to countries and situations, we shall not be able to attain an annual growth rate of more than 6 or 7 per cent. I do not wish to enter into a discussion of this intricate subject, however, and will merely draw attention to the significance of the figures presented in Mr. de Vries' paper.

Although he said that he had estimated the annual growth of exports at between 8 and 10 per cent, he stresses the need to reduce the import coefficient from 11 per cent of the product—in 1974 and 1975—to 9 per cent by the end of the decade. Mr. de Vries accepts with admirable composure the concept of import substitution, which until recently was eyed askance as hardly decent.

CEPAL has been the target of all kinds of criticism—which, albeit diminishing, still persists—with respect to what has inappropriately been called the 'import substitution model', although never has the existence of such a model been recognized by me. I will return to this subject later. For the moment I should merely like to stress that it is interesting and very significant that the need to lower the import coefficient

\*Address delivered at the Seminar on Export Promotion Policies held at CEPAL headquarters on 7 November 1976.

should be admitted in spite of the satisfactory export growth rate envisaged; this means a return to the vigorous promotion of import substitution policy, accompanied by the provision of incentives to the growth of exports.

One feature of this meeting has been that hardly anyone has seen any incompatibility between import substitution and the expansion of exports, the need for both having been asserted. It is worth recalling Mr. de Vries' very interesting remark that Brazil would not have been able to launch a thriving export trade in manufactures without previously having established a solid industry based on import substitution.

I think that the projections put forward by Mr. de Vries afford an objective indication of the factors which come into play, given the high elasticity of demand for imports in our countries. There are two basic ways of satisfying this import demand: either by inducing the centres also to increase their import coefficient through liberalization of their trade with the periphery, or by simultaneously combining import substitution with the promotion of exports in various ways. In so far as the first alternative is not achieved, the only other possible solution is the second, if a satisfactory rate of development is to be attained.

There is one objective fact which cannot be bypassed: the difference in elasticity between our demand for imports from the centres and the demand of the centres for our traditional exports. The combination of export incentives with import substitution is something which CEPAL has advocated for many years, and if I now say so again it is because our views in that respect have been conveniently forgotten in order to cast the supposed import substitution 'model' in our teeth. Allow me to

read one or two paragraphs from a report which CEPAL submitted to the governments in the year 1961, entitled *Economic Development, Planning and International Co-operation*. It contains a section on "The basic flaws in industrialization" which includes the following statement: "The excessive channelling of industry towards the domestic market is a result of the development policy pursued in the Latin American countries and of the lack of international incentives to exports of industrial goods from the region". And it adds that "the development policies have been discriminatory as regards exports. Assistance has been given —through tariffs or other restrictions— to industrial production for internal consumption, but not to industrial production for export. The production of many industrial goods has thus been developed at a cost far above the international level, when they could have been obtained with a much smaller cost differential in exchange for exports of other industrial products which might have been produced more profitably".

I believe that this is a sound theory, but the possibility of applying it depends not only on the wisdom with which economic policy is pursued in our countries but also on the attitude of the centres, and it is apt to be forgotten that their policy has been and still is restrictive. As Aníbal Pinto said to me a few days ago, the centres invite the peripheral countries to sit at their sumptuous table and to enjoy the pleasures of their prosperity, but when the peripheral countries arrive, those issuing the invitation look at their guests' shoes or the material of their shirts and begin to establish restrictions, relegating them to another table where the food is less abundant and less tasty, and, what is more, imposing quotas on those who had

naively believed that they could share in the advantages of the first more sumptuous table.

It is very understandable that the centres, in the situation they are facing, cannot enjoy the freedom of action that we should wish. I am the first to understand such problems, particularly where agriculture is concerned, and it is significant that I who come from an agricultural country should recognize that the centres justify their policy with some cogent arguments, although not all of them carry the same weight. What I cannot understand, however, is how there can still be people in our countries who think that the table is open to all, and that breaking down tariff barriers and advocating the free play of economic forces will suffice to resolve our fundamental growth problems. It is this theoretical anachronism that troubles me, this reversion to formulae that the world depression led us to reject so many years ago. These formulae are cropping up again and making for the commission of tremendous errors in our countries' economic policy. I therefore believe that it is very salutary to have at hand documents like Mr. de Vries' study which drive home the fact that the solution of our foreign trade problems does not depend on our policy alone, but also on the policy of the centres. This does not exempt us from efforts to implement a sound policy, but obliges us to take into account the obstacles imposed by the situation in which the centres are placed.

Mr. de Vries mentioned the transnational corporations, and accordingly the stumbling-blocks that have been encountered in this field should also be recalled. The transnational corporations were attracted by import substitution policy. It must be remembered that, in

general, they used to be reluctant to export, and still are in some sectors. Incentives, subsidies and other measures are changing this state of affairs, but I am not altogether encouraged by what has happened in recent years.

As can be seen in the country studies which have been presented at this seminar, and in an unpublished study by Cristóbal Lara which is in course of preparation, the proportion of traditional manufactures in exports to the centres is quite high. The transnationals have tended to export from one Latin American country to another, which is all very well, but to what extent can we rely on them to export to the centres? —not, at this stage, footwear and textiles, since the periphery is perfectly capable of exporting these, but the products which the transnational corporations can efficiently produce and export. How far can we expect vigorous export activity on the part of the transnationals in the articles that Mr. de Vries mentions, such as capital goods, non-electrical machinery, etc.? These are products of a higher level of technology: not of the most advanced, for which we are possibly not prepared, but of those intermediate technologies which Latin America is learning fairly fast. That is the unknown quantity I wonder about: what will the transnationals do towards enabling the projected export growth rates of 8 to 10 per cent to be attained and, if possible, surpassed?

2. With regard to Latin American trade, it is very encouraging to note that, despite the defects of LAFTA and other groups, and perhaps irrespective of their policies, intra-regional exports of manufactures have considerably increased. I have seen the figures for Mexico, Brazil and Argentina, and what they have done

in respect of exports to other Latin American countries is impressive, particularly in the case of Brazil.

Not everything is satisfactory, however, as although from the point of view of these three countries the success they have enjoyed is substantial, it must also be noted that they have not pursued a policy permitting the importing countries to pay for their purchases with goods. On the side of the latter there is an increasing deficit, so that in the relations between Latin American countries much the same pattern is being reproduced as has always existed with respect to the centres, especially the United States: a strong propensity to import, and a persistent deficit because exports have been insufficient to pay for these imports. This should arouse our concern, because it does not seem to me that consistently unbalanced development can provide us with solid bases for growth. In my opinion the countries exporting such manufactured goods are responsible for progressively resolving the importer countries' deficit problems.

I am increasingly convinced that in view of the prospects of the centres it is of essential importance that we should develop trade between Latin American countries. Its expansion would not take the place of extra-regional trade, but would represent additional trade flows and would make it possible to deal with certain problems on rational lines. For example, as Mr. de Vries has already said, an agreement could be reached on the development of certain basic industries in which various countries could share responsibility by products, so that the less developed countries and those which are at a disadvantage in any way would thus be given an opportunity to participate in these high-demand industries and in this abundant flow of trade.

There is no doubt that the Andean Group would have avoided major obstacles if it had carried out this kind of industrial division of labour. It is to be hoped that the idea of such a policy can be taken up again, perhaps by seeking formulae for the integration of the Andean Group and the Central American Common Market under a general agreement on the LAFTA bases or others. For if the LAFTA agreement is found to be inadequate it can be amended by additional protocols or changed altogether. In short, while admittedly the pace of the integration process has been slow, especially in the case of LAFTA, there can be no denying that it has been a very positive instrument. It has not been as effective as we might have wished, but could be much more so.

3. The last point on which I wish to comment is the question of vulnerability. This has already been touched upon; José Piñera has made a very interesting reference, which if I remember rightly occurs in the report prepared by him and R. French-Davis, to the idea that the criterion of economic viability in export promotion policy should also take into account the cost represented for a country by fluctuations in exports.

I have been a government official in a country which has experienced such fluctuations, and at one time I too had to recommend emergency measures to confront them. But I believe that Latin America has never been more externally vulnerable than it is today —and external vulnerability, from the economic and financial angles, also means considerable political vulnerability. It even implies vulnerability *vis-à-vis* the bankers, especially since the revolution which Carlos Massad describes in an article appearing in the second issue of the CEPAL

Review. The countries no longer depend on the International Monetary Fund for their short-term financial operations, but on a group of private bankers.

We have never been over-enthusiastic about IMF in CEPAL, even though it has improved greatly in comparison with what it was 20 years ago, but I fear that with the way things are going in the world Enrique Iglesias will find himself compelled to praise the Fund. Nor shall I find fault with him—I might even join my voice to his—in view of the contrast between the lines followed by IMF and what these bankers are doing today. They are the product of circumstances, and of the current international monetary and financial chaos.

I mentioned my previous experience because I think our countries are now defenceless on both flanks—the economic side and the financial side. Unfortunately the safety net devised by Enrique Iglesias has not so far materialized. Moreover, the chief architect of the international programme for the stabilization of commodity prices, Dr. Abramovic, is participating in this Seminar, and I do not think he looks particularly optimistic, unless I am misinterpreting his expression.

No progress has been made. The most disastrous aspect of all this is that every measure which the developing countries propose encounters a negative attitude on the part of the centres. I should like to see other options put forward, if the solution proposed for primary commodities and the suggested safety net are not considered appropriate. They are rational solutions, however, formulated by people who know the problems and are inspired by a sense of responsibility.

The worst of all is that our countries have lost a formidable instrument for

lessening vulnerability; they used to have a reducible margin of imports, as imports of non-urgent or non-essential articles existed which in the event of external difficulties could be restricted. I acknowledge that I was myself the agent of ruthless control of many items, beginning in an evil hour with French wines and Scotch whisky. However, it was necessary to find a way out of serious situations, and a way was found.

All in all, utter heterodoxy; but it is better to have committed this type of deviation from the orthodoxy of those days than to perpetrate a violation of orthodoxy much more serious than the restriction of imports. I refer to the heterodoxy of resorting to short- and medium-term credit in order to finance imports destined for consumption and not for capital formation. A large part of the debt which Latin America has accumulated in recent years has served to pay for imports of consumer goods; this has gone against all the prudent norms which guided us of old when we resorted to foreign capital.

We no longer have the reducible margin I spoke of, and attention was drawn to this in the 1961 study quoted. We pointed out to the governments that we were taking a misguided course, inasmuch as we were extending substitution to all durable and non-durable consumer goods, creating industries and employment for the labour force in the production of these goods, and at the same time neglecting the intermediate goods which would serve to produce them. Thus when such a situation supervenes as many countries are now faced with, there are no imports that can be reduced, because if any are restricted it will be at the expense of employment. Forgive me for saying 'at the expense of employment'; such concern is perhaps

unjustified, since the other day I read a leading article in a newspaper whose name I do not wish to recall, saying that unemployment is a problem of wages: if wages are allowed to fall to their natural level all the available labour will be absorbed. Yet another example of the invasion of theory to which we are being subjected in the Latin American countries, and which so grossly oversimplifies our situation.

I consider this concern for external vulnerability to be of fundamental importance. We are not going to be able to solve the problem immediately, but I believe that the lesson to be drawn from events today should prevent us from for-

getting the economic cycle. CEPAL has forgotten it, and I blame myself here as a CEPAL man. Preoccupied by such questions as the rate of growth, and structural changes, we have lost sight of the cycle, and the countries have lost sight of it too. In the boom period prior to 1973, we believed that economic growth would continue without major interruptions, and it has not been so. The cycle is, in the final analysis, the growth pattern of the capitalist economy. In default of international measures, we should reflect seriously on the internal measures which we could take to cope with this phenomenon.

## Population and the labour force in Latin America: some simulation exercises

*Charles Rollins\**

In Latin America due importance has not been attached to the problems deriving from population growth, and although it is not a matter of promoting a new malthusianism, attention should be drawn to the challenges with which the countries of the region will be faced if current population trends continue in the next few decades. Suffice it to point out that should this happen, Latin America would have more than 700 million inhabitants by the end of the century and over 6 000 million in a hundred years' time; that is, its population would be 20 times as big as at present, and one and half times as large as the entire population of the world today.

The present article explores some aspects of this process in relation to the continent as a whole and at the national and regional levels in four specially selected countries (Argentina, Brazil, El Salvador and Venezuela). In the light of several population projections, constructed on the basis of various growth hypotheses, it analyses general demographic trends (fertility, mortality, population growth) and changes in the age composition and in the structure of the labour force. In this last connexion, the author stresses the point that the great increase in the active-age population will exert tremendous pressure on the labour market during the coming decades, with the consequent economic, social and political repercussions.

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## Introduction

In the course of work on a general simulation model designed to experiment with a variety of possible development styles it became clear that employment is likely to remain one of the major problems facing the Latin American economy throughout the remainder of this century, if not longer. Given the importance of this question a separate population model was set up to investigate population and labour force trends. A set of simulation exercises was designed for the analysis of four countries, selected to show the range of variation in the region. The present paper reports the principal results of these exercises.

To place the exercise in proper perspective the analysis begins with a general discussion of the population parameters which characterize the region. Although well-known to demographers, it is probable that many of these, and their implications, are less familiar to economists and other specialists concerned with development problems, and in view of their often fundamental importance can bear repeating.

The first point to stress is that population is a long-term variable *per se*, and changes in the basic parameters require very long periods to work themselves out. Thus, even on the extreme assumption that age-specific fertility rates drop sharply for 25 years, to a level which implies zero population growth in a stable population, the population would still continue to increase rapidly for a much longer period; for the region as a whole, half a century would pass before the rate of population increase approached the present-day Western European level, and growth would actually stop only after about 100 years. From about 275 million in 1970 the

population of the region would rise to well over 500 million at the end of this century and to about 800 million by the time the expansion eventually stopped. The practical importance of such a minimum projection lies in that it shows quite clearly that the concept of Latin America as an under-populated region, with abundant land and other resources in relation to its population, corresponds to a transitory phenomenon only; in most countries this phase will have passed in less than 50 years' time.

At the other extreme, if birth rates are held at their 1970 level for a prolonged period, imagination boggles at the projected population figures: after 100 years the population of a small country such as El Salvador would number over 150 million, Brazil's more than 2 000 million, and that of the region as a whole over 6 000 million — half as large again as the present population of the entire world. The question is not whether this will happen, but rather how and how soon changes will occur which will bring down population growth to more manageable proportions.

The Latin American population is in general a very young one, but age structures vary substantially from one area to another and this has major implications for the size and growth rate of the labour force, the size of the dependent population, educational requirements, etc. An analysis of these aspects is undertaken, and again the very long-range projections show how age structures might change in extreme cases.

There are three major underlying population parameters which need to be estimated for use in the simulation exercises: fertility rates, death rates, and the pattern of internal migration. The greatest interest is probably in fertility rates, and the range is very wide: in 1970

the total fertility rate is estimated to have varied from around 2.3 in the urban south of Argentina to over 7 in various rural areas. This of course implies major differences in both the rate of increase and the structure of the population from one area to another. One of the more important conclusions to be drawn from the study must indeed be that, with respect to population parameters and trends, there is an impressive range of variation within Latin America.

On the basis of these estimates of the situation in 1970, and using specific assumptions about future changes, a number of simulation exercises were then carried out, covering the 30-year period to the end of the century. A similar set of exercises was conducted for each of the four countries studied, showing what would occur in the event of little change in the population parameters, moderate change, great change, a continuing shift to the cities, a relative retention of population in the rural areas, etc.

The aggregate population increases which can be expected are reasonably familiar. Even if it is assumed that age-specific fertility rates fall steadily and sharply, the annual rate of population growth declines only slowly and remains around 2 per cent at the end of the century in most countries; if more moderate decreases in fertility rates are assumed, the population will still be increasing at that date at rates of 2.5 per cent to over 3 per cent per annum. The end-of-the-century population in most countries can be expected to be more than twice as large as in 1970.

The two broadest economic issues here are the implications for per capita resource availabilities and the potential size of the market. With respect to the first, even with the rapid population

increase which will occur the region as a whole will not be particularly densely populated at the end of the century. But the resource base will have become much less generous than it has been customary to assume: from the early post-World War II period to the end of the century the population will have multiplied about fourfold, and so the per capita resource base will have been cut by three-quarters in half a century. As regards markets, it is clear that in the region as a whole the number of potential consumers will be more than sufficient to support even those modern industries with very large economies of scale. The more relevant question here is the extent to which the population can be integrated into the production process so as to provide real money demand for such products.

There are striking variations from one country to another in these general respects, however, and these differences are specified in the analysis.

In addition to the magnitude of the total population increase it is of major importance to determine where it is likely to occur. In part this will depend on existing population patterns—and here again there is a very wide range of variation—but it also depends on future internal migration flows, which add an important element of uncertainty to future trends.

At one extreme there are areas which were already largely urban in 1970 and where the bulk of the future population increase will occur in the cities, even if little more rural-urban migration takes place. In such areas facilities required for the growing population will have to be provided mainly in the urban centres, where infrastructure costs are likely to be relatively high. Other major implications are linked to

the fact that the population shift from the rural to the urban areas has basically already occurred. The impact on the cities of continuing rural migration will be relatively slight, and the increase in the urban population will depend primarily on fertility rates in the cities themselves. The nature of the urban population will gradually change; recent migrants will become a steadily smaller proportion of the total, with important economic, social and political consequences. What is perhaps of greatest importance is that since the period of most rapid urban population growth, linked to migration, is past, the cities can be expected to expand less rapidly in the future, and pressures for urban employment, housing, social services, etc., should therefore be easier to accommodate. At the same time the rural population will already have been reduced to a minority of the total, and so the problem of rural poverty will also be easier to deal with.

At the other extreme are those areas where the bulk of the population is still rural. Here the extent to which migration takes place is a central factor, and will determine where most of the population increase occurs. The potential transition to a chiefly urban population remains in the future. Large-scale migration could produce such a transition, and bring with it very high rates of increase in the urban population and consequent pressures for employment, social services, etc. At the same time, since the population will still be mainly rural, the problem of rural poverty will be especially difficult to tackle.

In addition to the rural-urban division, similar considerations can be applied to different regions within a country, and an analysis of this sort is undertaken in the cases of Argentina and Brazil.

Significant changes in the age structure may well take place by the end of the century, but the population will remain a relatively young one in most areas. The changes which occur will depend primarily on how much fertility rates decline, but also to some extent on internal migration flows. If birth rates decline substantially there will be a considerable reduction in the relative importance of the dependent population, which is composed largely of children in most areas (except in Argentina, the elderly dependent group will remain quite small until after the turn of the century). This would mean a sharp fall in the growth rate of the school-age population in many areas and so make adequate educational facilities easier to provide.

The age group which will increase most rapidly is the young adult group, and this has significant implications both for the growth of the labour force and for the number of births at any particular level of age-specific fertility rates. If fertility rates decrease substantially, by the end of the century there will be a sharp upswing in the relative importance of the young adult age group in most countries.

In all these respects great differences are observable from one area to another. In general the proportion of children is much higher and the proportion of active adults much lower in the rural areas than in the cities, a fact which carries major economic and social implications. As these disparities are partly the result of rural-urban migration (it is primarily the very young who migrate), future migration flows may be a continuing influence here. There are also significant differences among regions and at the national level.

On the basis of assumptions about labour participation rates, possible

trends in the dimensions of the labour force are obtained. In most countries it is likely to increase at annual rates of 3 per cent or higher for several decades at least, attaining by the end of the century  $2\frac{1}{2}$  to  $2\frac{3}{4}$  times its 1970 size. The near-certainty of this conclusion is shown clearly by the simulation exercises; despite the diversity of the underlying assumptions, the projections do not differ greatly from one exercise to another. Although the magnitude of the discrepancy varies, the increase in the labour force is nearly always a good deal larger than the increase in the population as a whole.

These growth rates are very high, and will represent a vital challenge to the modern-type industrial development process which characterizes the economies of the region. Historically, during the phase of industrial development in the now highly industrialized countries the labour force was increasing much more slowly, and even so the employment problem was for long periods often critical.

The relatively high rates of increase are a comparatively recent phenomenon, and partly account for the heightened concern with the problem of adequate employment opportunities in recent years. Furthermore, owing to the age structure of the population, these rates are only now reaching their peak in some countries, and cannot be expected to decline much until at earliest the last decade or so of the century.

Trends in labour participation rates may be an important factor in some areas. In particular, female participation rates are often quite low, and if they should rise toward Western European levels would significantly affect the overall expansion of the labour force. Its composition, both by age and by sex,

might be influenced to a considerably greater extent.

Again the question arises of where the increase in the labour force will be concentrated, and this is discussed in terms similar to those already noted with respect to the population as a whole.

The situation in the urban areas is of particular interest here, as the problem of employment tends to be more urgent in these areas.

All the foregoing aspects of the problem, plus others, are analysed more fully in the following pages.

## 1.

### General population trends and structures

The population exercises described here are quite simple in concept, do not pretend to observe the analytical rigour required by professional demographers, and are not intended for that audience. Estimates of all variables were made on the basis of the best data available at the time, but some of these must be regarded as only very approximate. Still, an effort has been made to deal with a number of the key determinants of population and the labour force, and although often results cannot be specified with precision they are likely to be of some interest to economists and others concerned with the role of population and the labour force in the development process.

Four countries were selected for the exercises with the aim of giving some idea of the range of variation throughout the region: Argentina, a highly urbanized country with a relatively low rate of population growth; Venezuela, a highly urbanized country with a high rate of population growth; Brazil, with an average degree of urbanization and a moderately high (and also average for the region) rate of population growth; and El Salvador, a country which remains mostly rural and has a high rate of population growth.

#### (a) Total population trends

The simulation exercises reported on here are basically concerned with the 30-year period 1970-2000. This is already a period of such length that nearly all variables can change considerably, and for most purposes there is little point in considering longer intervals. Population trends, however, are perhaps the long-term variable *par excellence*. The underlying parameters often change relatively slowly, and even when they do change can take a long time to work themselves out through the population structure. The aggregate population was therefore first projected for a 100-year period on each of two extreme hypotheses. This projection shows the limits within which population movements are likely to lie, and serves as a general framework within which to orient the analysis, which is thereafter restricted to the 1970-2000 period.

The limiting hypotheses refer to age-specific fertility rates. In one case the projection shows what would occur if fertility rates remained at about the 1970 levels. In the other, it is postulated that the age-specific fertility rates decline steadily and rapidly for 25 years, by

Table 1  
**LATIN AMERICA: POPULATION GROWTH IN SELECTED COUNTRIES ON  
 MAXIMUM AND MINIMUM HYPOTHESES**

	<i>Rate of population increase</i>					<i>Total population (millions)</i>				
	1970	1985	2000	2035	2070	1970	1985	2000	2035	2070
<i>A. Minimum hypothesis: Birth rates decline to zero growth level by 1995<sup>a</sup></i>										
Argentina	1.3	0.9	0.6	0.2	0.1	23.8	28.1	31.4	36.3	37.7
Brazil	2.9	2.2	1.3	0.5	0.1	95.2	137.7	177.1	245.8	264.4
Venezuela	3.0	2.7	1.4	0.6	0.1	10.6	16.1	21.4	30.8	34.8
El Salvador	3.3	2.5	1.4	0.5	0.0	3.5	5.3	7.0	9.9	10.5
Latin America <sup>b</sup>						276.7	405	520	720	780
<i>B. Maximum hypothesis: Birth rates remain at 1970 levels</i>										
Argentina	1.3	1.3	1.2	1.2	1.2	23.7	29.0	35.0	53.1	80.6
Brazil	2.9	3.2	3.3	3.2	3.1	95.2	150.2	242.3	730	2 124
Venezuela	3.0	3.5	3.5	3.5	3.4	10.6	17.1	28.9	82.9	310
El Salvador	3.3	3.8	3.9	3.9	3.9	3.5	6.0	10.7	40.8	156
Latin America <sup>b</sup>						276.7	437	704	2 121	6 175

<sup>a</sup>Fertility rates decline to the point where the gross reproduction rate is 2.2. In a stable population with the death rates which are expected to prevail in Latin America at the end of this century (and which are maintained in the projection) this results in approximately zero population growth.

<sup>b</sup>The figures are for the 20 republics. An independent projection was not made for the regional total: the figures are estimates assuming that the population of Brazil remains a constant proportion of the whole.

which time (1995) they reach a level which implies approximately zero population growth in a stable population, and then remain unchanged. Both hypotheses are extreme. There will almost certainly be future decreases in fertility rates, which are now often very high, in most countries; and it is highly unlikely that within 25 years fertility rates will decline to the level consistent with zero population growth. Nevertheless, this does set limits, and these, particularly the lower one, are of some importance,

specifically when dealing with the probable size of the labour force during the coming decades.

The results of these projections are presented in table 1, showing, for the limiting hypotheses, population growth rates and population size in absolute terms at intervals over the 100-year period.

For practical purposes the information provided by the minimum projection is of greater interest. Although in this projection fertility rates

in all countries have already fallen by the end of the century to a level consistent with zero growth in a stable population, the population is in fact still increasing at an annual rate of about 1.3 per cent in the region as a whole, and at higher rates in some countries. Even in the year 2035, when fertility rates have been at the zero growth level for fully 40 years, the population continues to increase at 0.5 per cent per annum. That is, even on this minimum hypothesis well over half a century would pass before the rate of population increase declined to the present-day Western European level, and about 100 years before the population became stable and growth actually stopped.

During this period the size of the population would expand substantially. Even with the very rapid decline in fertility rates assumed, the population of countries such as El Salvador or Venezuela would double by the end of the century, Brazil's would exceed 175 million, and that of the region as a whole would be well above 500 million. When stability was eventually reached, a small country such as El Salvador would have a population of well over 10 million, Venezuela over 35 million (similar to that of Argentina), Brazil about 265 million (similar to the 1970 population of the entire region), and Latin America *in toto* nearly 800 million.

The practical importance of this projection is that it shows quite clearly that the concept of Latin America as an under-populated region, with abundant land and other resources in relation to its population, corresponds only to a transitory phenomenon. Even on an extreme hypothesis regarding the decline in fertility rates the population of the region will continue to grow rapidly for a lengthy period, and when it becomes sta-

bilized will be nearly triple the 1970 population. The phase of under-population and relatively abundant resources will have passed in most countries in less than 50 years' time.

Long-term planning in the region will have to be oriented more in this direction. Land and other resources will become increasingly scarce—a minimum of around 800 million people will have to be provided for—and increasing attention will have to be given to the husbanding of these resources. This is likely to have major implications for a wide range of problems: patterns of urbanization and land settlement, natural resource extraction rates and export policy, agricultural development programmes, etc. It should be emphasized that no programme of family planning, or autonomous change, can reasonably be expected to alter this situation. The projection is a minimum one, assuming a sharp and rapid decline in fertility rates, and the real question is likely to be how far above this minimum the actual trend will lie.

The maximum projection is of interest less as a real possibility than as an illustration of the implausibility of things remaining as they are for a long period. If fertility rates were to remain at their 1970 level the population of the region would exceed 700 million at the end of the century. This is 35 per cent more than on the minimum hypothesis, but is still not an impossible difference, and again indicates the very long-term and slowly changing nature of population trends. Even with extreme hypotheses the results differ only moderately at first; it is only after several decades that the divergence begins to be striking and finally reaches enormous proportions. Should fertility rates continue at the 1970 level for 100 years (with

death rates unchanging at the levels expected in the year 2000) the population of a small country such as El Salvador would increase to over 150 million people, Brazil's would number more than 2 billion, and that of the region as a whole would be over 6 billion—half as large again as the present population of the entire world. The imagination boggles at such figures. The question is not whether this will happen, but rather how and how soon changes will occur which will bring population growth down to more manageable proportions.

*(b) Age structures at the national level*

To return to the minimum projection, it is of interest to note not only the changes in the totals, but also the shifts in the age structure which occur. As was noted above, the population continues to increase fairly rapidly for some time after fertility rates have declined to the zero growth level (in a stable population), and this is due to the age structure. The age structure also has major implications for the size and rate of growth of the labour force, the size of the dependent population, educational requirements, etc.

The youthfulness of the Latin American population has been widely commented on, but some of the implications are probably less generally known among non-specialists, particularly when they relate to changes over time; and they are of considerable importance. The major factor determining the age structure, as well as the total rate of increase, is the fertility rate; but death rates can also have an important influence, and the impact of these two vital rates tends to be of a similar sort.

Birth rates obviously determine the size of the infant population, and changes in fertility rates affect the relative size of this group and hence the age structure. Less obviously, a large proportion of total deaths also occur among the very young. In the late 1960s 40 per cent or more of all deaths in the region probably occurred among children under 5 years of age,<sup>1</sup> and the percentage was probably even higher in earlier years. Most of these child deaths, in turn, take place among infants of less than one year. This situation is a reflection both of the age structure of the population, and of the high child mortality rates which are often encountered, especially before death rates begin to fall substantially.

Thus changes in mortality rates tend to have a concentrated impact on the very young, and to affect the age structure in much the same way as changes in the fertility rate. In either case it is first the size, and hence the relative importance, of the youngest age group which is affected. With time this initial impact then surges up through the age structure like a wave.

It is useful to illustrate the variations which these kinds of influences have already produced in the region, and the extremes possible on the maximum and minimum hypotheses of the projections. Table 2 shows the age structure in the four countries dealt with in the projections.

<sup>1</sup>There is considerable variation among countries. In Uruguay and Argentina the figure was only about 15 per cent, while in a few countries it was over 50 per cent. There was some concentration around 45 per cent, however, and this included several of the most populous countries. For purposes of comparison it may be noted that the proportion in Canada and the United States was approximately 5 per cent.

Table 2  
AGE STRUCTURES IN SELECTED COUNTRIES<sup>a</sup>

Age group	1970				2070
	Argentina	Brazil	Venezuela	El Salvador	Typical with minimum projection <sup>b</sup>
0 - 4	10.0	16.3	17.3	18.5	7.1
5 - 14	19.1	26.4	29.5	29.0	3.9
15 - 19	9.0	10.8	10.8	10.3	6.8
20 - 39	28.6	27.2	24.8	25.3	26.8
40 - 65	26.2	16.3	14.7	13.8	30.0
65 and over	7.2	3.0	2.9	3.1	15.4

<sup>a</sup>The figures show the percentage of the total population of the country included in each age group.

<sup>b</sup>The minimum projection eventually results in an approximately stable population in each country and the age distribution is essentially the same in each case.

In Argentina both fertility and death rates have for some time been lower than in most of the region and this has already resulted in a distinctly different age structure. Structures in the other countries shown, while varying somewhat, are more similar. The differences are concentrated at the two ends of the age structure. Children (those less than 15 years of age) are a markedly smaller proportion of the population in Argentina: 29.1 per cent of the total. At the other end of the range, children account for 47.5 per cent of the population of El Salvador. Adolescents and young adults (the 15-39 age groups) represent surprisingly similar proportions of the population, and the compensating differences are concentrated in the older age groups. In Argentina 33.4 per cent of the population is 40 or more years of age, while in El Salvador the corresponding figure is only 16.9 per cent.

The projections using the maximum hypothesis (unchanging age-specific fertility rates) yield age structures in 2070 similar to those of 1970 in the respective countries, and are not reproduced in the table. The projections with the minimum hypothesis of eventual zero population growth, however, result in a quite different age structure—essentially the same for each country—and this is shown in the table. The differences are of the same sort already occurring between the countries in 1970, but more marked. Children plus adolescents account for only about 28 per cent of the total in a stable population, young adults about 27 per cent, and the older age groups about 45 per cent. To take the most extreme comparison, in El Salvador the proportion of children and adolescents would decline from 58 per cent of the population in 1970 to 28 per cent, while that of the 40-plus age group would increase

from 17 per cent to 45 per cent; the percentage of young adults would not change much.

These different age structures have numerous important implications. The dependent population (those under 15 and over 65) represented only 36.3 per cent of the population in Argentina in 1970, whereas the corresponding proportion ranged up to 50.6 per cent in El Salvador. Even with similar productivity levels per member of the working population, this would mean that per capita incomes would be higher in Argentina. Also, the school-age population is relatively much smaller in Argentina and so educational costs are less demanding. In an eventually stable population the dependent population would be of the same relative importance as in Argentina in 1970, but its composition would be quite different: there would be relatively fewer children and more retired persons, with the consequent social and economic implications.

The most active working-age population was approximately evenly split between the younger and older age groups in Argentina in 1970, whereas in El Salvador the younger group outnumbered the older by nearly two to one. Thus in Argentina the proportion of experienced workers was much greater than in the other three countries, with the various consequences which this might bring.<sup>2</sup> Again the age structure in a stable population is in this respect more similar to the 1970 situation in

<sup>2</sup>As is shown later, the age structure of the labour force itself varies from the age structure of the population owing to differing labour participation rates. The data therefore provide only an approximate idea of the labour force distribution.

Argentina—but with a significant further shift toward the older and more experienced part of the working-age population.

Other implications of the differences in age structures will be presented as the points of main interest in this analysis require.

The 1970 age structures presented in table 2 are already the result of changes over time in the different countries, and as these changes have important implications for some aspects of the following discussion they too need to be noted. The type of change which has occurred in recent decades, and its extent, are illustrated in the figures for Venezuela given in table 3.

As shown, the relative size of the child population has increased substantially in recent decades: from 41 per cent of the total in 1936 to 46.8 per cent in 1970, with most of the increase occurring in a single decade, i.e., the 1950s. This again illustrates how the initial impact of changes in the underlying vital statistics tends to be concentrated on the youngest age group. There was some increase in fertility rates, probably the result of improved health conditions, but the fall in mortality rates seems to have been more important, and this too had its most concentrated effect on the very young.

It is the infant population (children under 5 years of age) which first begins to increase in relative importance—during the 1940s and 1950s this group grew sharply in relative size. Then in the mid-1960s fertility rates started to decline, so that the relative importance of the infant population in 1970 fell from its earlier peak, while the upward surge of the 1940s and 1950s was beginning to work its way through the age structure. During the 1950s and

1960s the 5-14 year group increased rapidly in relative importance, and in the 1960s the adolescent population was similarly affected. But the surge is only just reaching the adult population groups, which have therefore continued to decline in relative importance.

Again there are numerous implications which follow from these changes. In the 1950s and 1960s the rapidly expanding primary school population can be expected to have exerted increasing pressure on the educational system. By the 1960s this pressure will have spread to the secondary and university level.

Of the impacts only just making themselves felt, one is of particular importance from the present point of view. The surge is barely starting to enter the age groups which make up the labour force. In the 1960s an upswing in the number of new entrants to the labour force can be presumed, which will result in pressures for additional employment

that are likely to continue for some years to come.

A second consequence worth noting is that the surge is also just beginning to penetrate into the child-bearing age groups, and this will have a marked effect on total births in coming years, quite apart from the trend in age-specific fertility rates.

The sequence shown for Venezuela can be regarded as fairly normal, although the changes are sharper than those which have occurred in some countries. First, an improvement in health conditions leads to a rapid increase in the size of the infant population, largely as a result of the fall in infant mortality rates, but also to some extent through a possible rise in fertility rates. The upsurge will then begin to work its way through the age structure. Finally, at some point fertility rates may decrease and counteract this tendency towards increase.

Table 3

**VENEZUELA: AGE STRUCTURE OF THE POPULATION IN RECENT DECADES<sup>a</sup>**

<i>Age group</i>	<i>1936</i>	<i>1941</i>	<i>1950</i>	<i>1960</i>	<i>1970</i>
0 - 4	15.0	15.8	17.6	19.2	17.3
5 - 14	26.0	25.6	24.8	26.8	29.5
15 - 19	10.4	10.4	9.9	9.1	10.8
20 - 39	30.0	29.4	29.1	27.4	24.8
40 - 65	15.4	15.3	15.2	14.8	14.7
65 and over	3.2	3.4	3.4	2.6	2.9

<sup>a</sup>The 1950 to 1970 figures are from the Latin American Demographic Centre (CELADE). Those for 1936 and 1941 are census data approximately adjusted so as to be directly comparable with the CELADE figures.

In the greater part of Latin America the strong downward movement in death rates appears to have begun in the 1940s, while trends in fertility rates have been more varied. Of the countries considered here Argentina is the one in which fertility rates seem always to have been lower than in most countries in the region, and have been declining gradually for some time. In Brazil fertility rates have also been somewhat lower than in a number of countries—although well above Argentina's level—and during the 1950s and 1960s they fell slightly. Fertility rates in Venezuela have been high, and began to decrease significantly only in the mid-1960s. In El Salvador, too, they have been high, and by the end of 1970 had not shown any marked downturn.

The tendency for a substantial drop in mortality rates to occur well ahead of any compensating change in fertility rates, which also results in a speeding-up of the rate of population growth, has been more widely commented on. But it is worth repeating the figures for the region as a whole to emphasize the magnitude of the change. In recent decades, the average annual rates of population growth in Latin America were as follows:

1920-1930	1.9 per cent
1930-1940	1.9 per cent
1940-1950	2.4 per cent
1950-1960	2.8 per cent
1960-1970	2.8 per cent

As observed above, it was in the 1940s that falling mortality rates introduced a pronounced change, and the process continued apace through the 1950s. In those two decades the annual rate of population increase rose by nearly half. The 1960s was a period of transition: the rate of increase was stabilized at a high level, as a result of offsetting trends

in different countries. The current expectation is of a decline, due to falling fertility rates; but it seems improbable that, for the region as a whole, the rates of population growth of the 1920s and 1930s will again prevail in this century.

### (c) *Labour force trends*

It is very important to keep in mind that the changes which brought about this speeding-up of the rate of population growth caused an accompanying shift in the age structure of the population. To date it has meant primarily an increase in the number of children and adolescents, but in coming years the upsurge will work its way through the rest of the age structure. There is one aspect of this process which is of special interest here and needs to be explicitly considered: the implications for the labour force and so for employment prospects.

Table 4 shows, for each of the four countries considered, how fast a hypothetical labour force has grown since 1950 and might grow in the future. The labour force is hypothetical as it is assumed that no change occurs in labour participation rates. The figures thus illustrate how the labour force is affected by population growth and changes in the age structure alone.<sup>3</sup> Up to 1970 the population figures are those of CELADE. From 1970 on they are the figures which result from the minimum projection, which assumes that fertility rates decline to the eventual zero growth level in 1995. This minimum projection

<sup>3</sup> Possible effects of changes in labour participation rates are considered in the simulation exercises discussed later; but it is useful first to emphasize the tendency of basic underlying population changes.

Table 4  
**SELECTED COUNTRIES: HYPOTHETICAL ANNUAL GROWTH  
 RATES OF THE LABOUR FORCE<sup>a</sup>**

	<i>Argentina</i>	<i>Brazil</i>	<i>Venezuela</i>	<i>El Salvador</i>
1950-1955	1.7	2.7	2.5	2.2
1955-1960	1.5	2.7	2.8	2.4
1960-1965	1.4	2.9	3.2	2.8
1965-1970	1.4	3.1	3.5	3.1
1970-1975	1.4	3.1	3.8	3.6
1975-1980	1.2	3.0	3.7	3.6
1980-1985	1.1	2.9	3.4	3.4
1985-1990	1.0	2.7	3.1	3.1
1990-1995	1.0	2.5	2.9	2.9
1995-2000	0.9	2.2	2.7	2.6
2010-2015	0.4	1.1	1.3	1.2
2030-2035	0.1	0.5	0.6	0.6
2065-2070	0.1	0.1	0.1	0.0

<sup>a</sup>The rates of increase shown are those which would result if no changes in labour participation rates occurred. A fixed set of labour participation rates by age group – the ILO estimates for 1960 for each country – are applied to the population figures for each year. Up to the end of 1970 the population figures are the CELADE estimates. After 1970 they are the figures which result from the minimum-hypothesis projections. In both cases they exclude international migration.

is of greater interest as it shows the lowest rate of increase in the labour force which must be anticipated – and, as can be seen, even this rate will remain high for some time.

The figures in table 4 give, again, a rather different picture for Argentina than for the other countries considered. At the beginning of the period shown the labour force was already growing less rapidly in Argentina than elsewhere, and this divergence became steadily greater through the 1950s and the 1960s. Whereas in Argentina the rate of increase declined from the level of the early

1950s, in the other countries it rose substantially.

The problem of employment has not been of the same serious nature in Argentina as in some countries of the region, despite the fact that the rate of economic growth during the 1950s and 1960s was relatively low, and that the population was very largely urban, conditions which tend to make employment problems more conspicuous. A major factor keeping the employment problem under reasonable control in such circumstances was undoubtedly this tendency for the labour force to increase

at a more moderate rate. If the trend in Argentina had been similar to that shown in the other countries the situation would have been much more serious.

But Argentina is an exception, and the other countries are more typical of what has occurred in the region as a whole. There are two aspects of the labour force trends in these countries which are of particular interest here. First, there has been a steady rise in the growth rate of the labour force over the past two decades. The rise was sharper in Venezuela and El Salvador than in Brazil, but it was considerable in each country. Furthermore, the rates of increase in the early 1950s were no doubt already well above those of earlier decades. This speeding-up of the growth of the labour force reflects, with some lag, changes in population growth rates. As discussed earlier, the substantial decline in death rates, with its impact on population growth, generally started around 1940, and presumably began to be more fully reflected in labour force changes toward the end of the 1940s. During the 1920s and 1930s this hypothetical labour force was probably increasing at only slightly over 2 per cent per annum in Brazil and Venezuela and at less than that rate in El Salvador.

So marked an acceleration of the annual growth rate of the labour force in recent decades – from around 2 per cent to 3 per cent or more in most countries – has undoubtedly been a major factor behind the mounting awareness of the lack of adequate employment opportunities. This factor alone could often create difficulties: an economic structure capable of absorbing an annual 2 per cent increase in the labour force could become more and more inadequate in this respect as the annual increments

rose to half as much again. There are of course other important factors: increasing urbanization, making employment problems more visible; changes in the industrial structure toward more capital-intensive and labour-saving techniques; etc. But it is important to bear in mind that the basic underlying population variables have changed in such a way as themselves to make the employment problem a great deal more difficult to cope with in recent years.

The second aspect of these labour force trends which is important here is that this pressure can be expected to continue for some time, and even on occasion to be intensified during the 1970s and 1980s. As shown in table 4, given the assumptions used, the rate of increase in the labour force climbs to its peak in Brazil in the last half of the 1960s and the first half of the 1970s; while in Venezuela and El Salvador the peak – in each case considerably higher than in Brazil – is reached only during the 1970s.

From the 1980s on the rates of increase gradually decline, but it will be recalled that this is on the basis of a projection which assumes a rapid fall in fertility rates, eventually to zero growth level in 1995. Even on this extreme hypothesis, the labour force continues to grow rapidly throughout the 1970s and 1980s; while at the end of the century the annual rate of increase is still 2.8 per cent in Venezuela and 2.6 per cent in El Salvador, and only in Brazil has fallen back to 2.2 per cent. In absolute terms the numbers go on rising well after the rate of increase has begun to decline. In Venezuela the absolute increment in the labour force toward the end of the century would be about double the yearly increase registered in the late 1960s; and even in Brazil the number to

be absorbed each year would be nearly two-thirds larger. It is only well into the next century that the growth of the labour force (as here defined) begins to slow down to the rates now commonly prevailing in the advanced industrial countries, and that the absolute numbers to be absorbed show signs of dwindling.

Even in the case of extreme hypotheses, then, the underlying population characteristics ensure that the labour force will continue to expand rapidly in most of the region through the rest of this century. In many countries its growth will actually speed up in the years immediately ahead. Employment policies must therefore be framed to deal with employment pressures about as great as those which have been experienced in recent years, and with the likelihood of the situation's being especially serious in the 1970s and early 1980s in this respect. The farther the decline in fertility rates falls short of this extreme hypothesis, the farther into the future will the period of maximum pressure extend.

There is one qualification of this picture which needs to be touched on here, even though it can only be adequately discussed later, with the aid of the simulation exercises. It is the urban employment situation which is usually of greatest concern to policy-makers, and rural-urban migration can cause the rate of increase in the urban labour force to vary greatly, independently of the trend for the labour force as a whole.

Table 5 shows rates of growth of the urban population in recent decades, from which it can be presumed that the urban labour force in each country has increased much faster than is indicated by the figures shown in table 4. In Venezuela and Brazil in particular the urban labour force has grown very rapidly during the post-World War II period.

Both recent and future trends depend heavily on how far urbanization has gone and how fast it is progressing. In a country such as Venezuela, where urbanization has been swift and has gone a relatively long way (only about one-fifth of the population is still rural), this has meant both a period of extremely rapid expansion in the urban labour force and a probability that future increases will be more moderate; already in the 1960s the growth rate of the urban population, although still nearly 5 per cent per annum, was much lower than in the preceding two decades. In a country like El Salvador, by contrast, the bulk of the population is still rural, and the possibility of a speeding-up of migration and consequently of the growth of the urban labour force remains in the future.

As noted above, this subject is discussed more fully in the context of the simulation exercises.

#### (d) *Urban-rural and regional differences*

The discussion up to this point has concentrated on population characteristics at the national level, with some references to trends in Latin America as a whole. There are often, however, significant urban-rural, and on occasion regional, differences within individual countries, and these are not only of interest in themselves, but are also important factors in determining trends at the national level. One of the essential reasons for undertaking the simulation exercises described in the next section was precisely to try to take these differences into account and to appraise their impact on the national aggregates. They are therefore discussed in more detail later; but it is useful here to point out several of the main features.

**Table 5**  
**SELECTED COUNTRIES: INTERCENSAL RATES OF POPULATION INCREASE**

	<i>National average</i>	<i>Rural</i>	<i>Urban</i>		
			<i>Total<sup>a</sup></i>	<i>Cities with 50 000 to 500 000 inhabitants in 1960<sup>b</sup></i>	<i>Cities with 500 000 inhabitants or more in 1960<sup>b</sup></i>
<b>Argentina</b>					
1914-1947	2.1	1.4	2.7	2.9	2.6
1947-1960	1.8	(-) 1.0	3.0	2.8	2.7
1960-1970	1.6	(-) 2.9	2.8	...	...
<b>Venezuela</b>					
1936-1941	2.7	1.2	5.3	3.8	6.5
1941-1950	3.0	(-) 0.1	6.7	7.4	7.8
1950-1961	4.0	0.5	6.3	6.3	6.6
1961-1971	3.4	(-) 0.5	4.9	...	...
<b>Brazil</b>					
1940-1950	2.3	1.6	3.9	4.8	4.6
1950-1960	3.0	1.3	5.5	6.2	4.3
1960-1970	2.9	0.9	4.8	...	...
<b>El Salvador</b>					
1930-1950	1.3	1.4	1.1	2.5	-
1950-1961	2.8	2.5	3.3	4.0	-
1961-1971	3.5	3.3	3.8	...	...

<sup>a</sup>Urban population as defined in census data. This includes smaller cities not shown in either of the following two columns.

<sup>b</sup>The growth rates in these columns relate to a fixed list of cities, the composition of the list being determined by the population in 1960. They are therefore not affected by cities shifting from one category to another as the population increases. The data are from CELADE, *Boletín Demográfico*, Year IV, Nº 9.

First, there is the widely-noted fact that the urban population is generally increasing much faster than the rural population. Trends in the countries being considered are shown in table 5. In both Argentina and Venezuela migration to the cities has for some time more than offset the natural increase in the rural population: in Argentina the absolute size of the rural population has declined

substantially since the mid-1940s and in Venezuela there has been a small net decrease since 1941. In Brazil the rural population has continued to increase, at least through 1970, but since 1940 the rate of increase has been falling steadily and is dropping ever farther below the national average. Only in El Salvador is the situation somewhat different. In that country the rural population has grown

faster in recent decades, in line with the rising rate of total population increase, and until around 1950 even grew somewhat more quickly than the urban population.

With this single exception, the urban population in each country, and in all recent intercensal periods, has increased more rapidly than the rural population. In El Salvador the difference is modest, but in the other three countries it is striking. At the extreme, in Venezuela the urban population increased throughout the 1940s and 1950s at an average rate of about 6½ per cent per annum.

Table 5 also shows the rates of population increase in the larger cities in the different countries, another aspect which has received considerable attention. As can be seen, the expansion of these larger cities is often, but not always, even more rapid than that of the urban population as a whole.

As was discussed earlier, at the national level there is considerable variation in the age structures of the different countries; and within a particular

country somewhat similar variations can be observed between the urban and rural populations and on occasion on a regional basis. Table 6 shows the urban and rural age structures in each of the four countries.

The differences in age structure are quite consistent, and often substantial. The percentage of children (up to 15 years of age) is in each country a much larger proportion of the rural than of the urban population, the difference ranging from 11 percentage points in Argentina down to 5 in Venezuela. This gap may well widen for some time in certain countries, primarily because the decline in fertility rates, and the consequent reduction in the relative importance of the youngest age groups, tends to take place first in the urban areas. The 15-19 age group is where the transition occurs. In Argentina this group, represents, as do children under 15, a smaller proportion of the urban than of the rural population; in the other countries it is relatively larger in the urban areas but the differences are rather slight.

Table 6  
SELECTED COUNTRIES: PERCENTAGE COMPOSITION, BY AGE GROUP,<sup>a</sup>  
OF THE URBAN AND RURAL POPULATIONS

Age group	Argentina		Brazil		Venezuela		El Salvador	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
0 - 4	27.8	38.8	13.1	17.1	17.3	19.9	15.6	18.1
5 - 14			25.6	29.2	26.2	29.6	25.7	28.8
15 - 19	8.0	9.6	11.1	10.9	9.3	8.5	10.0	9.4
20 - 39	31.5	27.3	29.1	25.4	29.8	23.9	28.1	26.2
40 - 64	26.3	19.8	17.5	14.6	14.9	15.3	16.6	14.7
65 and over	6.4	4.5	3.5	2.7	2.5	2.7	4.0	2.8

<sup>a</sup>The calculations are based on the latest available census data, which are from the 1970 census for Brazil and from those taken around 1960 for the other countries.

The adult population as a whole—those of 20 or more years of age—is the counterpart of the child population and accounts for a bigger share of the urban population in each country, although there is a good deal of variation within the total. This greater relative importance in the cities is striking in Argentina in the case of the older half of the adult population; in Brazil and El Salvador it is uniform, if more modest, throughout the adult age groups; and in Venezuela it is confined to the young adults, while the older half of the adult population is actually a slightly smaller proportion of the total in the urban areas. These variations reflect the shifting importance of the two principal factors underlying these differences in age structure: fertility rates and the scale of migration. In Venezuela, for example, migration was very substantial during the 1940s and 1950s, and since it is primarily the young who migrate this resulted in an unusually large concentration of young adults in the urban areas.

There are also significant differences from one country to another. Although there are consistent dissimilarities between the rural and urban age structures within each country, the urban (or rural) age structures are not all alike; in particular, the rural age structure in Argentina is more similar to the urban than to the rural structures in the other countries. Moreover, this cross-classification shows the range to be very great. The relative importance of children, for example, varies from less than 28 per cent of the urban population in Argentina to nearly half the rural population in Venezuela. Other differences are revealed by the data presented in table 6.

Table 7 shows the same data organized somewhat differently, to indicate the percentage of each age group which

lives in the urban and rural areas of the country concerned. The youngest age group is always of greatest relative importance in the rural areas (and least in the cities). In Venezuela the rural percentage falls steadily through the young adult group and then rises again for the older adult population. In the other three countries the rural percentage follows an unbroken downward trend throughout the age structure.

These different age structures tend to aggravate one of the region's major economic problems: the much lower productivity and income levels in the rural areas. Since the dependent population is everywhere a substantially higher proportion of the total in the rural areas this pulls per capita incomes even farther below urban levels than they would be anyway because of the lower productivity per worker. In addition, the fact that children constitute the great bulk of this dependent population complicates the educational problem. Children, relative to the rest of the population, are concentrated in the rural areas, where adequate educational facilities are in any case more difficult to provide and where low incomes limit the local contribution.

This population structure is likely to be an important aspect of the difficulties of the rural areas: except for Argentina, only about half of the rural population is in the active age groups, even if these are stretched to include all persons from 15 to 65 years of age.

It is also worth noting that women appear to migrate to the cities in significantly greater numbers than men, which perhaps reflects the type of employment most easily found in the urban areas; domestic and other low-income service positions commonly filled by women are probably more readily available. For the different countries table 8 shows the

Table 7  
**SELECTED COUNTRIES: PERCENTAGE DISTRIBUTION OF EACH AGE GROUP<sup>a</sup>  
 BETWEEN URBAN AND RURAL AREAS**

Age group	Argentina		Brazil		Venezuela		El Salvador	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
0 - 4	66.8	33.2	49.4	50.6	59.1	40.9	35.0	65.0
5 - 14			52.7	47.3	59.6	40.4	35.9	64.1
15 - 19	70.2	29.8	56.3	43.7	64.4	35.6	39.9	60.1
20 - 39	76.4	23.6	59.3	40.7	67.6	32.4	40.2	59.8
40 - 64	78.9	21.1	60.3	39.7	61.9	38.1	41.4	58.6
65 and over	79.8	20.2	62.2	37.8	61.2	38.8	46.6	53.4
Total population	73.8	26.2	55.9	44.1	62.5	37.5	38.5	61.5

<sup>a</sup>Calculations are based on the same data used for table 6.

proportion of women and of men, in each age group, living in the urban areas. The percentages are essentially the same for the 0-4 age group, reflecting fertility patterns, but thereafter a consistently higher proportion of the female population is found in the cities.

Similar variations in the age structure may also occur between different regions

within a country, a situation which can be illustrated with data from Brazil. Table 9 shows the age structure in the state of São Paulo, a high-income area, and in the North-east region, a low-income area; in both areas urban and rural age structures are shown separately so that the urban-rural and regional influences are not mixed. Table 10 again

Table 8  
**SELECTED COUNTRIES: PROPORTIONS LIVING IN URBAN AREAS,  
 BY SEX AND AGE GROUP**

Age group	Argentina		Brazil		Venezuela		El Salvador	
	Males	Females	Males	Females	Males	Females	Males	Females
0 - 4	66.2	67.3	49.3	49.3	59.0	59.0	34.9	35.1
5 - 14			52.1	53.3	58.4	60.7	35.3	36.6
15 - 19	67.4	72.9	53.9	58.4	62.1	67.0	37.5	42.2
20 - 39	74.6	78.3	57.5	61.0	67.6	67.5	37.8	42.6
40 - 64	76.4	81.5	57.7	62.9	59.5	64.4	37.4	45.3
65 and over	76.4	82.9	57.7	65.9	53.4	66.4	39.0	51.3

**Table 9**  
**BRAZIL: AGE COMPOSITION OF THE URBAN AND RURAL POPULATIONS**  
**IN SÃO PAULO AND IN THE NORTH-EAST, 1970<sup>a</sup>**

<i>Age group</i>	<i>State of São Paulo</i>		<i>North-east Region</i>	
	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>
0 – 4	11.6	15.1	15.6	17.7
5 – 14	23.6	28.2	27.5	29.1
15 – 19	10.4	11.0	11.4	10.7
20 – 39	31.4	26.9	26.5	24.6
40 – 64	19.3	16.1	15.7	14.8
65 and over	3.8	2.7	3.3	3.1

<sup>a</sup>Percentage figures calculated from unadjusted census data.

**Table 10**  
**BRAZIL: PERCENTAGE OF NATIONAL POPULATION IN SELECTED**  
**AREAS, BY AGE GROUP<sup>a</sup>**

<i>Age group</i>	<i>State of São Paulo</i>		<i>North-east Region</i>	
	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>
0 – 4	11.9	3.8	13.2	20.9
5 – 14	13.3	3.9	12.7	18.8
15 – 19	14.5	3.7	13.0	17.0
20 – 39	17.5	3.7	12.2	15.7
40 – 64	18.2	3.7	12.2	16.0
65 and over	18.5	3.2	13.3	17.2

<sup>a</sup>The percentages across do not total 100 as major areas of Brazil are not included in the table. Calculations are based on the data in table 9.

presents the same information in a different form, giving for each age group the proportion of the nationwide total living in the different zones.

The figures in table 9 show the now familiar and consistent sort of variation. At one extreme is the age structure in the urban areas of São Paulo with a relatively

small proportion of children and with a large proportion of the population in the active age groups; and that this is a shift of the sort referred to is shown by comparison with the figures for the urban areas of Brazil as a whole (see table 6). The rural areas of São Paulo have an age structure very similar to that

of the cities of the North-east, i.e., an intermediate situation. And at the other extreme is the age structure of the rural North-east, with a large dependent population and a much smaller proportion in the active age groups.

Table 10 shows the cities of São Paulo to have only 12 per cent of the infant population of the country (under

5 years of age) to care for, but close to 18 per cent of the most active age groups (20-64) to provide income. The rural areas of the North-east have 21 per cent of the infant population but only 16 per cent of the major income-earning groups.

The implications of such differences are similar to those mentioned in earlier sections.

## 2.

### The simulation exercises

The simulation exercises are designed to provide detailed projections, to the year 2000, of population and labour force trends in the selected countries. They are of course not predictions, but rather calculations of what will occur given specific assumptions about the principal variables which determine the model, i.e., fertility and death rates to calculate population trends, and then labour force participation rates to derive the labour force. Each of these variables is specified by sex and by 5-year age groups. In addition, one of the central aims of the simulation exercises is to calculate the effect of urban-rural and regional differences, so each variable is given a set of values for each of the regions considered, and within each region for the urban and the rural areas. This necessitates taking internal migration into consideration, and so migration rates are another key variable; again these are specified by sex and by 5-year age groups. For Venezuela and El Salvador the exercises distinguish only between the urban and the rural areas, but for Argentina and Brazil regional divisions are also taken into account.

The first step was to estimate all these values for the base year, 1970.<sup>4</sup> The CELADE estimates of population

by 5-year age groups and of age-specific fertility and death rates provided figures at the national level for each country. Then, with the use of census data, estimates were made of urban-rural and, where applicable, regional differences for each of the variables in the model. Values, by sex and 5-year age group, were calculated for each region and/or the urban and rural areas so that they were consistent with the CELADE aggregate estimates for the country. Labour force participation rates and the age structure of internal migration were estimated on the basis of census data alone.

Starting with these base year estimates, the simulation exercises calculate trends to the year 2000 in the light of a given set of assumptions as to how the values of the underlying variables will change during that period. Five different simulation exercises were carried out for each country. The specific assumptions

<sup>4</sup>For Venezuela and El Salvador detailed data from the 1970 censuses were not yet available, so estimates were originally prepared for 1960 and calculations were then made to reproduce the 1970 situation in so far as this was known.

were made in the context of each of the individual countries, but the exercises were designed to have a common pattern for every country, and their general nature can be indicated here.

The first exercise assumes relatively little change from the 1970 situation. Fertility rates decline only moderately, there is relatively little internal migration, and labour force participation rates remain nearly unaltered. Changes are generally of similar magnitude in different areas of the country; that is, there are no important relative shifts between different regions and/or the urban-rural areas.

The second exercise postulates that within a context of economic and social transformation which is largely concentrated in the more modern areas, the variables undergo changes, mainly in the more advanced regions and/or in the urban areas. Substantial internal migration is assumed, toward the more developed regions and/or toward the cities; urban fertility rates decline sharply—at least in the more developed regions—to around the zero growth rate in a stable population; urban labour force participation rates shift to about the present European values (the 1968 French rates). The changes in the less developed regions and/or the rural areas are not as pronounced, but are still more substantial than those postulated in the first exercise.

The third experiment again assumes that changes are concentrated in the more modern areas, where, however, while still considerable, they are not as marked as in the second exercise. In the less developed regions and/or the rural areas the changes are similar to the postulates of the second exercise.

The fourth exercise assumes economic and social change of a different type, concentrated largely in the less modern areas. There is less migration here than in any of the other exercises, and a larger proportion of the population remains in the less developed regions and/or the rural areas. And it is primarily the variables in these areas that change: fertility rates decline substantially, and move much closer to those in the more developed regions and/or the urban areas; labour force participation rates shift approximately to the present structure in the more developed regions and/or the cities. In the context of this exercise, more moderate changes are projected for the better-developed regions and/or the urban areas.

Finally, the fifth exercise postulates more balanced change, spread through both the more and the less modern areas. The population structure toward the end of the century, as between the different regions and the urban-rural areas, is intermediate between those projected in the third and in the fourth exercises; and the values assigned to the different coefficients are also intermediate between those used in these two exercises.

The values assigned to mortality rates have been omitted from this description of the simulation exercises. This simplifies the discussion, and has been done because mortality rates have less differential impact on the calculations than the other variables. In the CELADE population projections four alternative possibilities are normally presented. Each of the four postulates a different rate of decline in fertility rates, but as there is less uncertainty about mortality trends the same mortality rates are used in each of the four projections. A similar procedure has been followed in the simu-

lation exercises. Mortality rates often differ in different areas of the country, and these variations have been estimated for the base year, 1970. The CELADE projections to the end of the century are then used as a guideline. In the first three simulation exercises it is assumed that mortality rates in the different areas all decrease in line with the CELADE projections; that is, the structure of relative mortality rates in different areas does not change. In the fourth exercise the assumption is that, as part of the concentration on the less modern areas, mortality rates in such areas are gradually reduced to the level of those prevailing in the cities; by the end of the century mortality rates are uniform throughout the country. Here too the fifth exercise represents an intermediate position between the fourth exercise and the others.

The results of the set of simulation exercises were first analysed separately, and in some detail, for each of the four countries. These individual country studies have been presented as internal CEPAL working documents. The following discussion is confined to an analysis of the more general conclusions which can be drawn from comparisons of the different country projections, but of course it depends heavily on the earlier country analyses.

While in several important respects inferences can be drawn for Latin America as a whole, one of the most important general conclusions must be that in population parameters and trends there is an impressive range of intra-regional variation. Any statement about "conditions in Latin America" is apt to refer to some kind of average, around which there is considerable dispersion, instead of describing a situation which is the common norm throughout the region.

(a) *The situation around 1970*

To begin with, the two major population parameters – fertility rates and death rates – have evolved in quite different ways in the countries analysed, so that the 1970 rates of population growth and age structures, as well as the parameters themselves, vary considerably. At the national level, fertility rates in Argentina have been declining for some time and are now moderately low; in the other three countries they remain very high, although in Brazil and Venezuela there has been a modest decrease in recent years. Death rates have been greatly reduced in all countries, but with the partial exception of Argentina, there is still considerable scope for further reductions. It is well to observe at once that the setting-apart of Argentina already noted will tend to continue throughout this analysis; the general population structure has evolved much further in Argentina than in any of the other countries studied and when different aspects are considered it will often be found that the values or trends characterizing that country are markedly different from those prevailing elsewhere.

But these values at the national level are already averages of widely differing figures in major areas within the individual countries, and in this respect Argentina is no exception. Table 11 shows the total fertility rate in 1970 in each of the areas distinguished in the analysis; relative infant mortality rates are also shown to give some idea of the variation in death rates.<sup>5</sup>

<sup>5</sup> Up to about the age of 50 the variation in age-specific death rates among the different areas is fairly similar to that shown for infant mortality rates. From about the age of 50 on

Table 11  
**SELECTED AREAS: ESTIMATES OF TOTAL FERTILITY RATES AND RELATIVE  
 INFANT MORTALITY RATES, 1965-1970**

<i>Area</i>	<i>Total fertility rates</i>	<i>Infant mortality rates (Brazil = 100)*</i>
Venezuela, rural	7.54	90
Brazil, less-developed rural	7.53	144
El Salvador, rural	7.33	123
Brazil, intermediate rural	6.48	68
Argentina, North rural	5.93	85
Brazil, developed rural	5.64	68
El Salvador, urban	5.52	123
Venezuela, urban	5.44	60
Brazil, less-developed urban	5.43	103
Argentina, South rural	3.93	55
Argentina, North urban	3.81	85
Brazil, intermediate urban	3.78	57
Brazil, developed urban	3.45	57
Argentina, South urban	2.27	55

With the exception of the rural South in Argentina, fertility rates are higher in all rural areas than in any urban zone, but there are major variations within each grouping. At the top of the list are three rural areas where the total fertility rate remains at the very high level of more than 7 (the figure can be approximately interpreted as the number of children the average woman would have during her lifetime, given the prevailing age-specific fertility rates). The decline is then moderately rapid to a cluster of one rural and three urban areas with total fertility rates ranging around 5½. Then comes a sharp drop to another

the range narrows greatly; at more advanced ages death rates tend to be more similar throughout the areas analysed.

rural area plus three urban areas with rates of 3½ to 4; and finally, well below all of the others, the relatively low total fertility rate in the urban South of Argentina.

Except in this last area, fertility rates are everywhere at least moderately high, but the range is very wide. The cluster of areas with figures of from 3½ to 4, for example, have total fertility rates only about half those prevailing in the three areas at the top of the list; and there are major population groups in both clusters. It is always useful to bear in mind that when the total fertility rate in Latin America in 1970 is placed at about 5.4, this is an average figure covering areas with rates as widely varying as those shown.

To some extent death rates follow an order of ranking similar to that of fertility rates—in particular, the areas with low infant mortality rates tend to be the same as those with relatively low fertility rates—but there are striking exceptions. In general infant mortality rates appear to vary at least as much by region as on an urban-rural basis; thus the areas with the highest infant mortality rates include the urban as well as the rural areas in El Salvador, and likewise the less-developed region in Brazil. Here too there is a very great range: infant mortality rates in the less-developed rural area of Brazil and in El Salvador appear to be well over double those recorded in the areas with the lowest figures. Too much cannot be made of these comparisons, however, as in general the data on which the estimates are based are less complete than those available for making the fertility rate estimates.

These differing population parameters, with the additional major factor of

internal migration flows, have led to differing age structures in different areas, and to dissimilar geographic, and in particular rural-urban, population structures. These aspects have already been analysed in comparative terms, and in the context of the recent past. With respect to age structures all that need be recalled here is that, except in Argentina, populations are everywhere still very young, especially in the rural areas. As regards rural-urban structures, it is useful to summarize the degree of urbanization in 1970 in the regions analysed (see table 12).

Again the range is wide, and several of the major regions have reached very high degrees of urbanization. From these figures follow important implications about migration flows. In each of the first four regions the rural-urban flow in recent years has been on a large enough scale to result in a notable contraction in the absolute size of the rural population. In the next two regions of Brazil rural-

Table 12

**SELECTED COUNTRIES AND AREAS: DEGREE OF URBANIZATION IN 1970<sup>a</sup>**

<i>Region</i>	<i>Percentage of population in urban areas</i>
Argentina, South region	87.9
Brazil, developed region	80.4
Venezuela	77.0
Argentina, North region	55.7
Brazil, intermediate region	44.2
Brazil, less-developed region	43.7
El Salvador	39.4

<sup>a</sup>The definitions of 'urban area' adopted here are those of the respective censuses, which generally refer to cities with a population of 1 000 or more; in the case of Brazil, however, the definition appears to be based more on the type of administrative unit. The percentage shown for the developed region of Brazil is in fact the figure for the State of São Paulo, which is more appropriate in view of the way the developed region is defined in the study.

urban migration has also been substantial, even though the rural populations have continued to increase moderately rapidly. El Salvador is the only country, or region, analysed where rural-urban migration in recent years has been relatively insignificant, at least in relation to natural rates of population growth in the rural area.

Given the scale of internal migration, the structure of the migration flows becomes another variable of considerable importance, and here there is much less diversity among the countries analysed. The common characteristics are that it is primarily the very young who migrate, and that women migrate more than men. That migrants tend to be young is a commonplace, but they are perhaps surprisingly so in Latin America, particularly the women. It is in the rural-urban migration flows that women predominate, but even over the greater distances involved in regional migration in Argentina and Brazil they appear to migrate in numbers approximately equal to the figures for men. The structure of migration tends to be fairly similar in the different countries.

This then is the general demographic background which forms the starting-point for the simulation exercises: very considerable diversity, within as well as among the countries analysed, with Argentina a case apart in many respects; fertility rates, and hence population growth rates, for the most part ranging from moderately high to very high, major migration flows nearly everywhere, but with widely varying degrees of urbanization already achieved in the different regions.

#### (b) *Projected population trends*

(i) *Trends at the national level.* The first question is: how fast is the popula-

tion likely to increase from 1970 to the end of the century, and how much do the projections change with changing assumptions about the underlying population parameters? Populations increase most rapidly with the assumptions of little change from the 1970 situation adopted in the first exercise, and least rapidly with the great change postulated in the second exercise, so a comparison of these two experiments will show the probable limits involved (see table 13).

The extent to which Argentina is a case apart is at once clear. The population will increase only moderately to the end of the century and the range of uncertainty is quite small; the difference between the maximum and minimum end-of-the-century projections is only 12 per cent of the 1970 population.

In each of the other three countries the population more than doubles over the 30-year-period even in the minimum projection, and to the extent the substantial changes assumed in the second exercise do not occur the increase will be even larger. This means that the average rate of population increase will be at least 2.4 per cent per annum from 1970 to the end of the century, and probably significantly higher in most countries.

It is important to stress that this large increase occurs despite assumptions which lead to big reductions in fertility rates. First, large-scale migration to the cities, and in Brazil to the more developed regions, is assumed; and as the rates in question are substantially lower in these areas the effect is a considerable decline in the total national fertility rate. Secondly, it is directly assumed that fertility rates in the urban areas drop sharply, at least in the more developed regions, to the level of zero population growth in an eventually stable popula-

Table 13

**SELECTED COUNTRIES: PROJECTED POPULATION INCREASES TO THE END OF  
THE CENTURY – PROBABLE LIMITS**

Country	Population in 2000 (1970 = 100)		Average increase per annum 1970 to 2000 (percentage)		Increase per annum at the end of the century (percentage)	
	Exercise II	Exercise I	Exercise II	Exercise I	Exercise II	Exercise I
	Argentina	130	142	0.9	1.2	0.5
Brazil	203	237	2.4	2.9	2.0	2.9
El Salvador	217	280	2.6	3.5	2.0	3.6
Venezuela	204	248	2.4	3.1	1.6	2.8

tion. The net result is that in 30 years the total fertility rate decreases from about 5.4 to about 3.1 in Brazil, from 6.6 to 3.1 in El Salvador, and from 6.0 to only 2.5 in Venezuela.

That populations nevertheless increase rapidly over the period is a reflection of the very youthful age structure in most of Latin America. The very high fertility rates which have prevailed in many areas would have produced even higher rates of population increase with a stable age structure, but, owing mainly to the way in which the shift to higher rates of increase occurred, the age structure in most countries is still in a process of fairly rapid evolution. It was primarily the number of children which first increased very rapidly, thanks to falling infant mortality rates in the 1940s and 1950s, and this bulge is only now beginning to work its way through the adult age structure. In consequence, the numbers in the most fertile age groups will be rising rapidly in the coming decades in most countries—usually a good deal faster than the population as a whole—and this will be a major factor in increa-

sing the number of births, and offsetting increases in age-specific fertility rates.

Thus even if fertility rates should fall rapidly, as in the second exercise, a prolonged period is likely to pass before the full impact is felt. The rates of population increase at the end of the century in the second exercise are important to note in this respect. They have by that time declined to 2 per cent per annum or less, and as the numbers in the fertile age groups are no longer increasing so rapidly (reflecting the decline in fertility rates which began several decades earlier), the downward trend might well continue a good deal farther in the early decades of the next century. This is an indication of the very long-term nature of population changes; even sharp changes in the parameters may well require several decades to produce the expected results.

If there is no big drop in fertility rates the youthful age structure may actually result in rising rates of population growth in some countries in the years ahead. Thus even though the first experiment does assume some decrease in fertility rates, the figures above show

that rates of population increase at the end of the century are not necessarily lower than the average for the period as a whole. In Brazil there is a very small rise during the 1975-1985 period, but the rate of increase is essentially constant to the end of the century; in Venezuela there is a more significant upswing during the 1975-1985 period, after which the rate declines slowly to the end of the century; and in El Salvador the rate continues to climb, from 3.2 per cent per annum in 1970 to 3.6 per cent at the end of the century.

Argentina apart, then, it is clear that the population will increase very substantially in Latin America, and even if fertility rates should begin an immediate and rapid downward movement—which has not yet occurred in most of the region—the rate of increase will remain high at least to the end of the century. Two very general economic issues of interest here are the implications of such an increase for per capita resource availabilities and for the potential size of the market. Each of these would of course require a thorough study of its own before much could be said about it, but the figures shown in table 14 are of interest as a general, although imprecise, sort of indicator.

In terms of the resource base—in so far as this is indicated by the simplistic measure of population density—Latin America will continue to be among the more favoured regions of the world. For the region as a whole the population density at the end of the century will probably be around 30, i.e., somewhat higher than the figures shown for Brazil and Venezuela; in the South American continent the overall density will be lower, and this will be offset by higher densities in Central America and the Caribbean. The corresponding figure for

the world as a whole is already about 30 in the mid-1970s, although densities in the areas regarded as resource-rich are of course much lower.<sup>6</sup>

Thus, even with the rapid population increase which will occur, the region as a whole will not be particularly densely populated at the end of the century. But the resource base will have become much less generous than it has been customary to assume. From the early post-World War II period to the end of the century the population of the region will have approximately quadrupled, and this of course means that the per capita resource base will have been cut by three-quarters in half a century. In the mid-1970s the world as a whole is no longer considered to be especially resource-rich in relation to its population, and it is roughly the present world density level that at the end of the century will characterize Latin America.

With respect to markets, in the region as a whole the number of potential consumers will clearly more than suffice to support even those modern industries with very large economies of scales. The important question here is the extent to which the population can be integrated into the production process so as to provide real money demand for the products of such industries. But also, at least with present institutional arrangements, markets need to be considered on a national rather than on a regional basis, and this is

<sup>6</sup>For example, population densities in the mid-1970s were around 11 in the USSR, 22 in the United States, 2 in Canada and Oceania, 13 in Africa, and 16 in Latin America itself. To take examples of densely-populated areas, the figure was around 155 in Western Europe, over 180 in India, more than 290 in Japan, and around 475 in Bangladesh.

another situation in which the diversity is striking.

In Argentina, since the total population is moderately large, and is already more generally integrated and has higher incomes than in most countries, the market should be big enough to support a reasonably diversified modern economy. At the same time the population density will remain low, implying an unusually favourable per capita resource base; in particular there are rich agricultural resources, a key asset in a world expected to be beset by food supply problems. Argentina may well find itself in a uniquely favourable situation in the region in these broadest economic terms.

Brazil stands out in a different way. The resource base, as expressed in terms of population density, will be somewhat better than the average for the region as a whole (although worse than the South American average); but the potential market will be very large. The Brazilian population at the end of the century will be of the same order of magnitude as those of the economic superpowers of the post-World War II period: the EEC, the United States, or the USSR. The major issue in Brazil in this connexion

will be the extent to which that population can be integrated into the modern economy so as to provide an effective market with real purchasing power. Although their population will not be nearly so large as Brazil's, this sort of situation is likely to characterize other major countries in the region. Mexico will have a very big population, and the limiting factor in market terms will be the extent to which that population can be integrated; densities will be well over double those in Brazil. And both Colombia and Peru will have populations of a size to support diversified economies, if, again, they can be integrated into the economy so as to provide effective monetary markets.

Venezuela's situation is more similar to Argentina's but rather less favourable in both respects. Population density will be more than double that of Argentina at the end of the century, yet the total market will be significantly smaller. Income levels are likely to be high, however, so that the population can be expected to be relatively fully integrated and the effective market large in relation to the population.

Finally, El Salvador is in a much less favourable position. Population density

Table 14  
SELECTED COUNTRIES: PROJECTIONS FOR THE YEAR 2000

<i>Country</i>	<i>Total population (millions)</i>	<i>Number of inhabitants per square kilometer</i>
Argentina	31 to 34	11 to 12
Brazil	194 to 225	23 to 26
El Salvador	7.6 to 9.7	354 to 455
Venezuela	22 to 26	24 to 29

will be very high – to the point that mere pressure on resources, especially land, may be a major problem— and at the same time the total population is not large enough to provide the basic market for a diversified, internally-oriented economy. Although to less extreme degrees, a number of the smaller countries of the region may easily find themselves in this sort of situation in the decades ahead.

(ii) *Trends in the different areas.* In addition to the total population increase, it is of major importance to determine where that increase is likely to occur and the implications this will have for the different areas. In much of Latin America a substantial proportion of the population is still rural, and since fertility rates are generally much higher in the rural areas, it is often there that most of the population increase originates. But migration to the cities is occurring everywhere, often on a large scale, so that in general it is the urban areas which will absorb the bulk of the population increase in the decades ahead. To a lesser extent the same sort of considerations will apply as between more and less developed regions within the larger countries.

Trends and the possible range of variation can be seen by comparing the results of the third and fourth simulation exercises. The third assumes continuing modern-type development, oriented towards the cities and, in Argentina and Brazil, the more developed regions; large-scale migration; and major decreases in urban fertility rates, although not so great as with the extreme assumptions of the second exercise. The fourth simulation, in contrast, assumes a shift to a less modern-type development, oriented towards the rural areas and the less-developed regions; there is very little migration, and it is primarily the popula-

tion parameters in the rural areas which are assumed to change. These two experiments thus show the extreme extents to which the population increase might remain in the rural areas (and the less-developed regions) or might shift to the cities instead. Comparative figures are shown in table 15.

Given the assumptions of the fourth exercise, except in Argentina there is not much change in the distribution of the population, and rates of increase are fairly similar from one area to another within each country.<sup>7</sup> But even in the fourth exercise El Salvador is the only country where somewhat more than half the population increase takes place in the rural areas; in the other countries, even if migration is held to a minimum, it is primarily the cities which will have to accommodate the increment. In regional terms, however, the position alters: practically half the total increase would occur in the less-developed region in Brazil, and well over half in the North of Argentina.

With the assumptions of the third exercise, on the other hand, the situation is very different. There are substantial shifts in the distribution of the population in all countries toward the cities and, in Brazil, toward the more developed regions. Practically all the population increase is accounted for by the expansion of the urban areas, and most of it occurs in the more developed regions of Brazil and Argentina. And, of course, rates of population growth are

<sup>7</sup>The low fertility rates in the urban South of Argentina mean that population growth in this area depends to an unusual extent on migration. Thus with the limited migration assumed in the fourth exercise the population of the area does not increase much and its share in the total declines from 62.5 per cent in 1970 to 54.8 per cent at the end of the century.

Table 15  
**SELECTED COUNTRIES AND AREAS: RELATIVE IMPORTANCE OF DIFFERENT AREAS  
 IN THE PROJECTED POPULATION INCREASE, 1970-2000**

Country and area	Distribution of population throughout the country			Percentage of population increase in area		Average annual rate of increase	
	1970	2000 Exercise III	2000 Exercise IV	Exercise III	Exercise IV	Exercise III	Exercise IV
<b>Argentina</b>							
North rural	12.9	7.9	14.8	-6.6	20.3	-0.7	1.6
North urban	14.9	18.2	21.3	25.7	37.0	1.5	2.2
South rural	9.7	5.7	9.1	-4.7	9.4	-0.7	1.1
South urban	62.5	68.2	54.8	85.7	33.4	1.3	0.6
<b>Brazil</b>							
Less-developed rural	30.1	13.9	27.9	-0.6	25.9	-0.1	2.3
Less-developed urban	23.4	30.8	23.2	37.5	23.1	3.5	2.6
Intermediate rural	9.9	7.9	10.8	6.1	11.7	1.8	2.9
Intermediate urban	7.8	12.7	8.1	17.0	8.4	4.2	2.7
Developed rural	4.1	2.3	4.0	0.7	3.9	0.6	2.5
Developed urban	27.4	32.4	25.9	39.4	27.0	3.5	2.7
<b>El Salvador</b>							
Rural	60.6	33.1	57.1	15.4	54.7	1.1	2.9
Urban	39.4	66.9	42.9	84.6	45.3	5.0	3.4
<b>Venezuela</b>							
Rural	25.3	14.6	24.6	6.5	24.0	0.9	2.7
Urban	74.7	85.4	75.4	93.5	76.0	3.3	2.8

very much higher in the cities than in the rural areas; except in Argentina, the urban growth rates are everywhere high, ranging from 3.3 per cent to 5 per cent per annum for the 30-year period as a whole. Because of the gradually diminishing impact of migration as the shift to the cities proceeds, as well as the marked fall in urban fertility rates, these rates of increase are even higher at the beginning of the period and then decline to lower levels at the end of the century.

These potential shifts in population structures and the variations in possible

rates of increase in the different areas are of major importance, and were analysed in some detail in the individual country studies. Several different 'type' situations are apparent—depending upon the 1970 population distribution and upon variations in fertility rates—and these are worth summarizing for their general implications.

Venezuela is the best illustration of likely trends in a country which was already quite highly urbanized in 1970. There the bulk of the population increase occurs in the cities under all

assumptions; even with the limited migration assumed in the fourth exercise, over three-quarters of the increase is found in the cities, and if substantial migration continues, essentially the entire increase will be urban (during the 1960s the rural population actually declined).

This state of affairs has several important implications. Its direct consequence is simply that facilities required for the growing population will have to be provided largely, or even entirely, in the urban areas; because of greater densities and the habitual provision of more services in the cities, this will mean that infrastructure costs are likely to be relatively high.

A second implication is that, since the rural population has already been reduced to a minor proportion of the total, the impact of continuing migration on the cities will be relatively slight, and the increase in the urban population will depend primarily on fertility rates in the cities themselves. Thus in Venezuela, on the assumption of continuing rapid migration adopted in the third simulation, newly-arriving migrants account for only about 18 per cent of the total increase in the urban population at the beginning of the period and the figure decreases to about 14 per cent at the end of the century (despite the fact that urban fertility rates fall sharply over the 30-year period). Related to the total, the number of migrants arriving in a year would be only about 2/3 of one per cent of the urban population in the early 1970s and the proportion would decline to less than 1/3 of one per cent at the end of the century. Migration in these conditions will continue to be a major factor in determining the size and composition of the rural population, but its significance for the cities will become increasingly marginal.

A logical corollary is that the nature of the urban population will gradually change: migrants will become a steadily smaller proportion of the total. Even with the third simulation's assumptions of continuing large-scale migration, less than 10 per cent of the urban population in Venezuela at the end of the century will be migrants who have lived in the cities for less than 30 years; over 80 per cent of that population will have been born in the cities. Recent arrivals from the rural areas were a much bigger proportion of the urban population during the 1950s and 1960s, and the shift can be expected to have a powerful impact on expectations, and in general on social, economic and political orientations in the urban areas.

Finally, and perhaps of greatest importance, the fact that the massive shift to the cities has already occurred, and that the impact of migration is diminishing, will mean that rates of urban population growth can also be expected to decline. In Venezuela the urban population increased at rates of well over 6 per cent per annum during the 1940s and 1950s, with newly-arriving migrants representing more than half the increment. Around 1960 the incidence of migration began to lessen markedly (two-thirds of the population was already urban by that date), and the annual rate of urban population growth began to slacken correspondingly. In the second half of the 1960s this rate was already much slower – 4.7 per cent – and it will continue to decline steadily.<sup>8</sup> The

<sup>8</sup> How fast it declines will also, of course, depend on the trend in urban fertility rates. It will fall to around 3 per cent at the end of the century, if these do not decrease much, and to around 2½ per cent if they do, even assuming that substantial migration continues.

period of most rapid urban population growth is therefore already over, and in Venezuela future rates of increase will be much lower than the peak rates of the recent past. As a result, pressures for urban employment, housing, social services, etc., should be a good deal less intensive, at least in relative terms, and therefore easier to accommodate.

At the same time, the problem of rural poverty will become more manageable. The rural population is now much smaller than the urban population and so funds required to improve conditions for the former are more likely to be a viable proportion of the total available. Those who cannot obtain remunerative employment in the rural areas can migrate to the cities, where, as noted, they now have a relatively slight impact, and this in itself should considerably alleviate poverty in the countryside. Indeed, the fact that the population is already relatively highly urbanized is likely to mean that conditions have not deteriorated in the rural areas; in Venezuela the rural population has remained approximately constant in size since about 1940, so there has been no build-up of pressure on the land. And so long as the natural increase is drained away by migration all efforts can go to improving levels of per capita welfare in the rural areas; nothing is required to accommodate greater numbers. All these considerations suggest that the problem of rural poverty is not likely to be as severe as in some regions, and should be easier to deal with.

This is all true, of course, only if the bulk of the population which is now urban has been more or less effectively integrated into the urban money economy; a simple shift from conditions of rural poverty to unintegrated urban poverty would not really mean changes

of the sort implied here. But the mere fact that urbanization has gone so far is evidence that such integration has probably taken place. Otherwise it is unlikely that migration would have continued for so long on such a large scale.

This, then, is something of a case of "unto him that hath shall be given". Once the mass transition from a basically rural to a basically urban society is successfully made, the difficulties—which are apt to be very severe in the transition period—are mitigated and at the same time resources available to deal with them are likely to become more generous, at least in relative terms. Much of the post-World War II period was one of such transition for Venezuela, and it seems probable that pressures associated with rapidly increasing numbers will moderate considerably in the years ahead.

In addition to Venezuela, among the countries (or regions) analysed the South of Argentina and the developed region of Brazil are also characterized by high degrees of urbanization, although there are special characteristics in each of these cases and both are complicated by the existence of migration flows from other regions within the country. Migration may therefore continue to be somewhat more important, even though the rural populations within each region are smaller in relative terms than in Venezuela. Nevertheless, much of the above discussion is also applicable to these two major regions.

A somewhat different sort of problem which may persist in these highly urbanized regions is that related to the absolute size, as distinct from the rate of expansion, of some metropolitan areas. Given the type of economic growth which has characterized the region in the post-war period, there has often been a

considerable concentration in one or a few major cities, and some of these have reached a size where diseconomies of scale are now thought to present serious problems. In these circumstances it is possible that if a city continues to expand fairly rapidly the difficulties of coping with the expansion may increase, despite the fact that the *rate* of population growth may be declining. The metropolitan areas of Buenos Aires and of São Paulo, for example, may well have grown to the point at which considerations of this sort apply.

The relative difficulty of tackling problems of regional disparity can also be viewed in the same light in which rural poverty was discussed above, and the contrast between the situations in Argentina and in Brazil can be noted here. In Argentina over 72 per cent of the 1970 high-income population was in the South (62.5 per cent in the urban South alone). The comparison between the South and the North is thus fairly similar to that between the urban and rural areas of Venezuela, and many of the same comments are applicable. A regional development programme in Argentina appears manageable in these conditions and could probably be undertaken while at the same time a modern type of expansion was continued in the South itself. That is, the diversion of resources required would probably not be so great as to absorb all, or the bulk, of what was available.

In Brazil, however, the situation is much less favourable. In 1970 less than 28 per cent of the population was in the developed region (less than one-quarter in the developed urban area), and well over half still lived in the less-developed region. In these conditions the requirements of a full-scale regional development programme might well preempt

almost all the resources available, leaving little for continuing modern-type expansion in the developed region itself. That is, a different development style would probably be necessary to bring about short- or even intermediate-term regional change on a major scale.

A second useful 'type' to analyse is a situation where around half the population was urban at the beginning of the projection period. Brazil as a whole and the North of Argentina are fairly close to this position—in each case about 56 per cent of the population was urban in 1970—but it can be better illustrated with the Brazilian data, the situation in the North of Argentina again being complicated by regional migration flows.

The bulk, if not all, of the population increase will still occur in the urban areas, but if large-scale migration continues the impact on the cities will be considerably greater than in the Venezuela-type situation. In the third exercise, which assumes that rural-urban migration continues on about the same scale as in the recent past, the urban areas absorb practically all (94 per cent) of the population increase; and newly-arriving migrants account for well over 40 per cent of the total urban population growth in the early 1970s and for nearly 30 per cent even at the end of the century.<sup>9</sup> In the early 1970s migrants arriving during the course of a year would represent about 2 per cent of the entire urban population, a figure which

<sup>9</sup>The reason why the relative importance of newly-arriving migrants does not decline faster lies in the assumption that urban fertility rates are substantially reduced over the period. Both this assumption is adopted in the third exercise for all countries, so the figures are directly comparable to others cited in this connexion.

would fall to about 0.8 per cent by the end of the century.

These figures are much higher than those cited for Venezuela and indicate that rural-urban migration may for a good while remain a major factor in the growth of the cities in Brazil. The impact will be fairly great, and for some time to come recent migrants will continue to be an important component of the urban population.

Nevertheless, this impact has already begun to weaken, and in Brazil too the peak period of urban population growth is almost certainly over. Rural-urban migration has been substantial in Brazil in recent decades and has played an even bigger part in urban population growth than the simulation projections indicate it will in the future. During the 1950s the urban population increased at a peak rate of 5.5 per cent per annum; in the course of the 1960s this rate had already fallen to 4.8 per cent per annum and the third simulation projects an annual rate of 4.4 per cent during the early 1970s and then a continuing decline to 3.2 per cent at the end of the century.

The pressures on the urban areas can therefore also be expected to decrease in the Brazilian type case in the years ahead, although less rapidly, and from less high extremes, than in Venezuela. This reflects the fact that the mass shift from a basically rural to a basically urban population was compressed into a shorter time-span in Venezuela, producing annual rates of urban population increase of well over 6 per cent from 1940 to 1960, and then a sharper drop once the transition was well on its way to completion. In Brazil the shift has been more gradual, so that such high rates of urban population increase never occurred, and the decline has also been less abrupt.<sup>10</sup>

This more gradual transition in Brazil is at least in part the result of the great regional differences within the country, and these require a major qualification of the above discussion. As a general rule, it is useful to indicate likely trends, and their implications, for a country with somewhat more than half its population now urban. But in the specific case of Brazil this is of more limited relevance. As the degree of urbanization is very different in the major regions of the country, so likewise trends in the individual regions will be different, and it is these which are of primary importance. As is often the case for Latin America as a whole, the 'average' here is only a sum of disparate parts.<sup>11</sup>

Finally, a third 'type' is a country whose population is still largely rural, and this can be illustrated with the data for El Salvador. As shown earlier, over 60 per cent of the population was still rural in 1970, so that the transition to an urban society, with its implications for rapid expansion of the cities, is a possibility still to come. Furthermore, this relatively low degree of urbanization has not changed much in recent decades; as early as 1930 about the same percentage of the population was urban (38.3 per cent) and in the intervening decades there has been no major rural-urban migration flow and rates of population increase in the rural and urban areas have

<sup>10</sup> During the period of most rapid urban expansion in Brazil (1950 to 1970) the urban population rose from 36 per cent to nearly 56 per cent of the total population. Over the equivalent 20-year period in Venezuela (1941 to 1961) the urban population increased much more, from 39 per cent to 67 per cent of the total.

<sup>11</sup> The analysis in the case study of Brazil is made largely in terms of the individual regions for this reason.

been much more similar than in most of the region. Rapid urbanization, should it begin, would therefore also represent a sharp break with past trends.

The first important point to note is that a relatively low degree of urbanization means greater uncertainty about the distribution of the future population increase as between the rural and the urban areas. If past trends continue, the bulk of it will be in the rural area—which is not true of any other country analysed—but to the extent migration increases it will shift to the urban area. Again, the maintenance of past trends will make rates of population growth fairly similar, and high, in both areas; but if there is substantial migration the rate of increase will drop sharply in the rural areas and rise sharply in the cities. Thus migration flows become a more central variable in this sort of situation and must be watched even more closely for policy purposes.

Given large-scale migration, here as in the other type situations, the great bulk of the population increase would be in the urban area, and it is there that facilities would have to be provided. But the impact of such migration on the urban area would be greater in this case. If the projections of the third exercise are again considered, newly-arriving migrants account for over half of the total urban population increase in the early 1970s and still represent about 30 per cent of it at the end of the century. Migrants arriving during the course of a year total more than 3 per cent of the existing urban population in the early 1970s, and although it declines steadily the proportion is still 1.2 per cent at the end of the century. These figures are far higher than those of the corresponding simulation for Venezuela and substantially exceed those for Brazil, particu-

larly during the first half of the projection period, indicating the more powerful potential impact of large-scale migration on this sort of situation. Here the composition of the urban population would shift, but in a way opposite to its probable evolution in Venezuela. Recent migrants would be a rising proportion of the total for some time to come, and would remain a major element in the cities until well past the end of the century.

As large-scale migration would represent a break with past trends in El Salvador, the pressure on the cities would sharply increase. The annual rate of urban population growth has been fairly rapid in the recent past (around 3½ per cent) but with large-scale migration it would rise to an average of 5 per cent for the period 1970-2000 as a whole. At the beginning of the large-scale migration it would be around 6 per cent, and then decline, as the shift to the cities progressed, to about 4 per cent at the end of the century.<sup>12</sup>

A change of this magnitude, with the urban population rising from less than 40 per cent to about two-thirds of the total over a thirty-year period, would

<sup>12</sup> These projected rates of increase are based on the assumptions of the third simulation, and the rates could be even higher. Although large, the migration assumed in that exercise is less than has often occurred elsewhere, and the rural population continues to increase at an average rate of 1.1 per cent per annum to the end of the century. The third exercise also assumes a sharp drop in urban fertility rates, which of course reduces the rate of increase. In an exercise designed to show the extremes (the rural population is held approximately constant and there is only a small decline in fertility rates) the average rate of urban population increase to the end of the century is 5.6 per cent per annum.

not be particularly unusual in the region. It would be similar to the speed of urbanization in Brazil in recent years, for example, and would be less rapid than the transition which occurred in Venezuela during the post-war period.<sup>13</sup> But, given the high fertility rates prevailing in most of the region, the transition will of necessity involve a spell of very rapid urban population growth, with the resulting severe pressures for employment, essential infrastructure and social services in the urban areas, which would be, at best, difficult to cope with. This may well be a period which assumes crisis characteristics, and is likely to be crucial to success or failure in establishing a reasonably integrated modern economy. Herein lies one of the reasons why population trends during the transition phase are among the most important results obtained from the simulation exercises.

Lastly, where the population is still largely rural, the problem of rural poverty is an extremely difficult one to resolve. As most of the population may well be involved, the resources required are likely to bulk very large in the total available to the economy, and in these circumstances it will probably be impossible to seek a basic solution to the rural poverty problem while at the same time pursuing a growth programme centred on a modern-type urban economy.

<sup>13</sup> In Brazil the urban population rose from 36 per cent of the total in 1950 to 56 per cent in 1970, and rates of increase in the urban and rural populations were similar to those projected in the third exercise for El Salvador. In Venezuela the shift projected over 30 years for El Salvador occurred in only 20 (the urban population increased from less than 40 per cent of the population in 1941 to over two-thirds in 1961); rates of population growth were higher in the cities and there was essentially no expansion of the rural population.

In effect, a choice may have to be made between less satisfactory alternatives. Priority for the rural poverty problem may well necessitate a different style of development, oriented less towards modern-type industrial production and more towards the rural areas. This could be regarded either as a long-term alternative, or as an intermediate-term solution, in the latter case with the expectation that it would result in a fairly rapid decline in rural fertility rates so that, with slower population growth, the shift to a more modern urban economy could then be undertaken more gradually and therefore with less severe pressures.

Alternatively, the transition to a modern-type urban economy could be undertaken at once, with essentially all resources concentrated on making the transition successful and the rural poverty problem left either to be resolved by the transfer of population itself, or to be dealt with later. As noted, neither alternative is completely satisfactory.<sup>14</sup>

The simulation projections provide data on another issue related to urbanization which is worth noting: the extent to which the process reduces fertility rates and hence the rate of population increase at the national level. Since ferti-

<sup>14</sup> This discussion implicitly involves one of the factors which will probably be important in determining how difficult the transition to an urban society is likely to be: the population density at the time the transition begins. If the rural areas are only sparsely populated—as was the case in Venezuela, for example—then the problem of rural poverty is likely to be less severe. It can more safely be ignored to concentrate on the pressures in the burgeoning cities, and will be easier to deal with later. If densities are already rather high in the rural areas—as in El Salvador—then the problem is likely to be more serious and the whole transition process more difficult to handle.

lity rates are in general lower in the cities, if migrants adopt urban practices this will reduce the number of births, and so urbanization is sometimes regarded as the most effective and practical way of reducing the rate of population growth. Past trends in the countries included in this study do not offer much support to this hypothesis. In Venezuela there has been a mass shift to the cities in recent decades, but this has not been accompanied by any substantial decline in fertility rates at the national level. In Brazil there has been a somewhat smaller, but still very considerable, shift toward the areas with lower fertility rates (the cities and the more developed regions), but again this has brought with it no significant decrease in the overall national fertility rate. Other factors have no doubt been present, but these trends do not encourage the belief that urbanization alone is likely to slow down the rapid rates of population increase.

The potential numerical impact can be shown in two differing cases—Venezuela and El Salvador—with data from the simulation exercises.<sup>15</sup> Venezuela represents a country already quite highly urbanized and so it is not surprising that the impact of further migration is limited, even though fertility rates are

<sup>15</sup> For these two countries an additional simulation exercise was carried out to determine the impact of mass migration in conditions where otherwise, particularly with respect to fertility rates, there was little change from the 1970 situation. In this exercise, with the exception of migration rates, all variables are the same as in the first exercise. Any difference in results is therefore exclusively due to migration, this being very limited in the first exercise and very large, in relation to the rural population, in the additional exercise.

estimated to be nearly 40 per cent higher in the rural than in the urban area. Both the rate of increase and the total population at the end of the century are closely similar in the two exercises.<sup>16</sup>

El Salvador is still primarily rural at the starting-point of the projections, however, and the difference between the degree of urbanization in the two exercises is very marked,<sup>17</sup> so the differential effect on population growth is predictably great. In the first exercise the total population at the end of the century, with 1970 = 100, is 280 and the population is then increasing at the very rapid annual rate of 3.6 per cent, whereas in the special exercise the figures are only 263 and 3.3 per cent, respectively. The impact of urbanization is, as noted, important, but even with a massive population shift of the sort projected here, and on the assumption that migrants immediately adopt urban practices, it is clearly limited. Urbanization alone cannot be expected to reduce the rate of population increase to moderate proportions in most of the region; that will occur only when fertility rates within the different areas fall below their generally high present levels.

<sup>16</sup> Given 1970 = 100, the population is 248 at the end of the century with limited migration and 245 with large-scale migration. The annual rates of population increase are 2.79 per cent and 2.74 per cent, respectively. This simply confirms numerically the intuitively obvious conclusion that in a population which is already largely urban further urbanization alone will not have a significant impact on total fertility rates.

<sup>17</sup> In the first exercise the proportion of the population which is urban rises only from 39.4 per cent in 1970 to 43.6 per cent at the end of the century. In the special experiment it

*(c) Projected trends in age structures*

Currently prevailing age structures have already been discussed in comparative terms, and the principal implications noted, so that here it is necessary to deal only with likely trends to the end of the century. It is the trend in fertility rates which largely determines the age structure, and so a comparison of simulation exercises with differing assumptions about fertility rates will show the limits within which changes can be expected to occur. This means comparing the results of the first exercise (little change from the 1970 situation) with those of the second (large-scale migration toward areas with lower fertility rates and sharp declines in fertility rates in the urban areas) (see table 16).

In the first exercise only moderate changes take place up to the end of the century. In Argentina there is a pronounced increase in the relative importance of the over-65 group; in Venezuela, and to a lesser extent in Brazil, a decline in the relative importance of children is offset by an increase in that of the adult age groups; and in El Salvador that of teenagers and young adults is stepped up slightly.<sup>18</sup> With the continuing exception of Argentina, populations will remain very young if fertility rates do not fall much lower.

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rises to 76.9 per cent. That is, there is a differential shift of fully one-third of the total population.

<sup>18</sup> The changes are different in the several countries mostly because of differing past trends in the population parameters, the results of which are now working their way through the age structure. There are also some discrepancies due to the extent of the decline in fertility rates assumed in the first exercise for the various countries.

In the second exercise the shift in all countries is much greater, with the relative importance of children declining substantially and that of the adult age groups increasing. But, Argentina apart, populations will remain quite young even if there should be a sharp and sustained downward movement in fertility rates. At the end of the century less than one-quarter of the population in the other countries will be 40 or more years of age, whereas in Argentina one-third of the population was already in that category in 1970, and in an eventually stable zero-growth population the proportion would be about 45 per cent.

Since the bulk of the age range at the end of the century represents those already born in 1970, whose numbers are therefore essentially unaffected by the assumptions of the projections, the differences between age structures in the first and in the second exercises are due very largely to differences in the numbers of children and adolescents at the end of the century, which are very great. With the rapidly falling fertility rates assumed in the second exercise, the number of infants (the 0-4 age group) at the end of the century in Venezuela and El Salvador is not much more than half the number projected in the first exercise, and in Brazil less than two-thirds. The number of children (5-14 years of age) at the end of the century in the second exercise is only about two-thirds the number projected in the first exercise in Venezuela and El Salvador, and about three-quarters in Brazil.<sup>19</sup> With the adult population more or less pre-determined, it is these sharp possible variations in the

<sup>19</sup> The differences are less in Brazil largely because of regional disparities in that country and the consequently somewhat different pattern of assumptions used in the exercises.

Table 16  
**SELECTED COUNTRIES: PROJECTED AGE STRUCTURES**  
*(Percentage distribution)*

Age group	1970				2000 (exercise I)				2000 (exercise II)			
	Argentina	Brazil	Venezuela	El Salvador	Argentina	Brazil	Venezuela	El Salvador	Argentina	Brazil	Venezuela	El Salvador
0-4	10.1	16.3	16.9	18.4	9.7	15.3	14.8	18.1	7.4	11.7	9.7	11.7
5-14	19.1	26.4	29.4	28.6	18.0	25.0	25.5	27.9	15.5	22.0	21.5	23.5
15-19	9.0	10.8	10.7	10.2	8.4	10.2	10.7	10.6	7.9	9.9	10.6	10.8
20-39	28.5	27.1	25.1	25.6	28.4	28.3	28.9	26.9	30.2	31.5	33.5	32.7
40-64	26.2	16.3	15.0	14.0	25.4	17.1	16.0	13.4	27.9	20.0	19.6	17.2
65 and over	7.2	3.1	2.9	3.2	10.2	4.2	4.1	3.2	11.1	4.9	5.0	4.1

number of children which account for the different age structures in the two exercises.

There are already great differences in the age structures from one area to another within each country, and these can be intensified by large-scale migration. As it is mostly the young who migrate, this will tend, over the period of the projection, to reduce the relative importance of young adults in the areas from which migrants come (primarily the rural areas) and to increase it in the recipient areas. Different trends in fertility rates can of course cause the age structures to diverge further. The possible extent of such differences can be shown by the age structures at the end of the century projected on the basis of the assumptions of great change in the second exercise. Figures for selected

areas in each country are given in table 17. Too much weight cannot be attached to these figures because of the way in which migration is calculated in the model, but they do illustrate the striking extent of the divergencies which might arise.

In general the proportion of children will be much higher in the rural areas and the proportion of active adults, especially young adults, much lower. A special situation to note is the high percentage of older people in the rural South of Argentina. A fairly mature population structure has evolved in that region, and continuing large-scale migration will drain away much of the younger population, so that older people, who tend to remain, will become an increasingly large proportion of the total. All the figures shown illustrate the

Table 17  
SELECTED COUNTRIES AND AREAS: AGE STRUCTURES IN 2000 AS  
PROJECTED IN THE SECOND EXERCISE

Age group	Venezuela		El Salvador		Argentina			Brazil	
	Rural	Urban	Rural	Urban	North rural	South rural	South urban	Less-developed rural	Developed urban
0-4	14.1	9.1	17.5	9.6	10.7	7.3	6.8	17.6	8.9
5-14	26.7	20.8	28.6	21.6	21.5	16.2	14.0	32.8	17.0
15-19	10.0	10.7	9.8	11.1	8.2	6.8	7.7	13.2	8.6
20-39	27.4	34.4	24.7	35.7	21.8	22.8	31.7	21.2	35.8
40-64	16.7	20.0	15.2	18.0	24.7	27.3	28.7	10.8	24.3
65 and over	5.1	5.0	4.2	4.0	13.0	19.6	11.1	4.4	5.4

changes that could occur with the assumptions of extreme change adopted in the second exercise; in the other simulations the divergencies between areas are less striking, but they are always substantial.

There are several important implications of these potential changes in age structure. The first is that the relative size of the dependent population (those less than 15 and over 65) will generally diminish somewhat, how much being conditional upon trends in fertility rates. In Argentina the dependent population in 1970 was of the same relative importance as it would be in an eventually stable zero-growth population (somewhat more than 36 per cent of the total), and this proportion will not change greatly. But in all the other countries the proportion was much larger (nearly 46 per cent in Brazil and around half in Venezuela and El Salvador), and can be expected to decline, perhaps quite substantially. There are again marked differences from one area to another, with dependency ratios a good deal higher in the rural areas and in the poorer regions. The likely range at the end of the century can be illustrated with the results of the first exercise (little change from the 1970 situation) and the third (considerable change, but less extreme than that assumed in the second exercise), selected figures from which are shown in table 18.

In addition to the overall figures, it is important to note the composition of this dependent population. In Argentina, in 1970 the over-65 group was already somewhat more than 7 per cent of the entire population, and about one-fifth of the dependent population itself; and if fertility rates decline further these figures could rise to close to 11 per cent and to 30 per cent, respectively, at the end of the century. The elderly population is

thus beginning to assume considerable importance in Argentina.<sup>20</sup> In the other countries, however, the over-65 group was only about 3 per cent of the population in 1970 (6 per cent to 7 per cent of the dependent population), and although these proportions will rise, it does not exceed 5 per cent of the population at the end of the century (less than 14 per cent of the dependent population) in any simulation. Not until the next century will the elderly group become a major part of the dependent population in these countries, and in most of the rest of Latin America as well.

The principal consequence of the generally large size of the dependent population is simply that each member of the labour force will have a greater average number of dependants to support, so that at any given labour productivity level per capita incomes for the population as a whole are lower. This is a major factor in the relatively high per capita income levels in Argentina, and in the other countries as dependency ratios decline per capita incomes will tend to rise. It is thus that a fall in fertility rates can have an immediate impact: there are fewer children to support per member of the active population and so per capita incomes improve.

There are also policy implications relating to the measures which will have to be taken to look after the dependent population. In Argentina a major consideration will be the provision of social services and health facilities for the elderly, but in the other countries it will very largely be children's needs that have

<sup>20</sup> As a point of reference, in an eventually stable zero-growth population the over-65 group would be about 15 per cent of the total, and well over 40 per cent of the dependent population.

Table 18  
**SELECTED COUNTRIES AND AREAS: RELATIVE IMPORTANCE OF THE  
 DEPENDENT POPULATION, 1970 AND 2000**  
*(Percentage of total population)*

Country and area	1970	2000	
		Exercise I	Exercise III
Argentina: total	36.4	37.9	35.4
North rural	49.0	47.6	45.7
South urban	31.7	34.4	33.1
Brazil: total	45.8	44.5	40.3
Less-developed rural	50.2	51.8	52.9
Developed urban	39.4	35.8	32.8
El Salvador: total	50.2	49.2	46.0
Rural	51.8	51.8	50.8
Urban	47.5	45.7	43.5
Venezuela: total	49.2	44.4	41.2
Rural	54.1	48.5	47.5
Urban	47.1	43.4	40.2

to be met. Here educational facilities are a permanent concern in the social area, and the most important issue is therefore how fast the primary-school-age population is likely to increase.

The 5 to 14 age group can be used as an estimate of the primary-school-age population, and the figures presented earlier show that the relative importance of this group will decline in all countries—moderately even in the first exercise and much more if there is a big drop in fertility rates. Hence this age group will increase less rapidly than the population as a whole in the years ahead. At the national level the period of most rapid increase in the primary-school-age population has already passed in all the countries analysed, so that, in the aggregate, the often severe pressures for

school facilities experienced in the recent past will presumably be eased in the future. But the extent of the relief varies greatly, and it is often the pressure in particular areas rather than the aggregate which is most exacting, so care must be taken in interpreting such a sweeping, although still very important, generalization. In addition to the clear-cut differences from one area to another there is often considerable uncertainty here, so that for purposes of educational planning trends will have to be closely followed if effective provision is to be made.

At one extreme, the rate of increase in the primary-school-age population in Argentina had already fallen to about 1 per cent per annum during the 1960s, and will slow down somewhat more

during the 1970s. If fertility rates continue to decline, this age group will then remain approximately constant from 1980 to the end of the century, so that no additional expansion of primary school facilities will be required on this score. This would be a situation similar to that experienced in a number of the advanced industrial countries in recent years. But as the primary-school-age population is quickly affected by trends in fertility rates uncertainty is introduced, although less in Argentina than elsewhere, and if there is no further significant reduction of fertility rates the school-age population will increase somewhat faster again after 1980.<sup>21</sup>

The primary-school-age population will continue to expand much more rapidly in the other countries, and the rate may fluctuate substantially. This can be illustrated by past and projected trends in Venezuela, figures for which are shown in table 19.

As shown, the peak was reached during the second half of the 1950s, when this age group increased at the extremely rapid annual rate of 5.7 per cent. The rate has declined since, and will drop sharply to less than 2 per cent during the 1970s. From that relatively low level it will rise a good deal during the 1980s, and turn downward again during the last decade of the century, the magnitude of the fluctuation depending on the trend of fertility rates.<sup>22</sup>

<sup>21</sup> In the first exercise (little change from the 1970 situation) the 5-14 year age group increases at the rate of 1.3 per cent per annum during the 1980s and then, somewhat more slowly again, by 1 per cent per annum during the last decade of the century.

<sup>22</sup> These fluctuations result from the nature of the underlying population parameters and from the way in which the transition to higher rates of population increase occurs.

In addition to the variations in growth at the national level, there are major disparities in the extent to which the increment, and the need for primary school facilities, are likely to be concentrated in particular areas: and so the rate of increase is also likely to differ greatly from one area to another. At one extreme, the rural primary school population in Argentina decreased substantially during the 1960s, and if migration continues on a similar scale the decline will continue. There was also a significant reduction in the developed rural area in Brazil, and growth was only slight in the rural areas in Venezuela, so that here too continuing migration will involve little or no expansion of this group. In such circumstances no increase in school places is required, except perhaps to improve attendance ratios, and available funds can be used entirely to raise standards.

At the other extreme, the cities must often clearly absorb the great bulk of the increase, and growth rates in some circumstances can be very high. To cite the most striking instances, the urban primary-school-age population in Venezuela was increasing at a peak rate of close to 10 per cent per annum during the late 1950s, when the rapid expansion of this age group in the country as a whole coincided with the mass movement to the cities. The rate then fell fairly quickly, and, as most of the population shift to the cities has already occurred, the increase in the urban primary school population in Venezuela will in the future remain below 4 per cent per annum. Within that limit there will be considerable fluctuations from one period to another, and much will depend on the trend in fertility rates.

Growth rates of this age group in the urban areas of Brazil were also very high

during the 1960s (for the decade as a whole they ranged from 5.5 per cent to 6.8 per cent per annum in the different regions of the country) and will remain quite high to the end of the century. But the peak rates of urban increase in Brazil, as in Venezuela, have passed, and the pressures for primary school facilities in the cities, which have often been very great, will probably be substantially eased in the years ahead. In the countries here considered, the only urban area which might well experience a marked intensification of the pressures for primary schooling is that of El Salvador. In El Salvador the population is still basically rural, and large-scale migration to the cities could increasingly accelerate the growth rate of the urban primary-school-age population.

It must be stressed that there is clearly a good deal of variation among the different areas. Both the existing situation and the trend are likely to be quite different from one area to another, and there is considerable room for uncertainty because of possible changes in fertility rates and/or migration flows. Adequate educational planning will require a careful analysis of conditions in the different areas of the country, and trends will need to be followed closely; they are unlikely to be steady and can change relatively quickly for this age group.

The other age group whose relative importance will probably alter a good deal in most countries, and with implications that require noting, is the young adult group (20-39 years of age). Argentina is again an exception, but in the other countries this age group will gain in relative importance even if fertility rates do not decrease much, and if they do, the increase may be very substantial.<sup>23</sup> The number of young adults will

therefore be growing faster—perhaps much faster—than the population as a whole in most countries. This reflects the fact that the initial bulge, which began with the transition to higher rates of population growth, and which, as pointed out above, often resulted in very high rates of increase in the child population during the late 1950s and 1960s, is now reaching the young adult age group; consequently, this age group will expand rapidly in most countries at least until the last years of this century.<sup>24</sup>

Again considerable variation is likely from one area to another within a country, particularly if there are large-scale migration flows. As this group is

<sup>23</sup> In Argentina the fall in the relative importance of children tends to be offset primarily by a rise in that of the elderly. If there is a major decline in fertility rates the relative importance of young adults will of course increase, but no more than that of the older adult group. The situation is also somewhat different in Brazil. As in Venezuela and El Salvador, the proportion represented by young adults will rise, perhaps substantially; but in Brazil the 40-64 year age group will increase approximately as much as young adults in relative terms.

<sup>24</sup> The projected growth rates of this age group in the different countries to the end of the century are as follows:

	1970- 1980	1980- 1990	1990-2000	
			Exer- cise I	Exer- cise II
Argentina	1.5	1.2	0.8	0.6
Brazil	3.4	3.0	2.8	2.4
El Salvador	3.6	3.8	3.5	3.1
Venezuela	4.2	3.8	2.8	2.3

The rates are of course the same in all exercises until 1990. Only after that date do differing assumptions about fertility rates begin to affect this age group.

Table 19  
**VENEZUELA: AVERAGE ANNUAL INCREASE IN THE  
 PRIMARY-SCHOOL-AGE POPULATION**  
*(Percentage)*

<i>Period</i>	<i>Actual rates of increase</i>	
1950-1955	4.1	
1955-1960	5.7	
1960-1965	4.7	
1965-1970	3.8	
	<i>Projected rates of increase</i>	
	<i>Exercise I</i>	<i>Exercise III</i>
1970-1980	1.9	1.8
1980-1990	3.4	2.8
1990-2000	2.5	1.7

heavily affected, such migration can well result in an absolute fall in the number of young adults in some rural areas, with big counterpart increases in the urban areas to which the migrants move. In those exercises which assume large-scale migration, rates of increase of 5 per cent to 6 per cent per annum are projected for several of the urban areas during the first half of the 30-year period.

There are two major implications of this rapid future increase in the young adult population. First, since this is the age group with the highest age-specific fertility rates, a rapid rise in its numbers will tend to mean a rapid rise in the number of births, and hence a relatively high growth rate for the population as a whole. So this aspect of the age structure is a basic determinant of an accelerated rate of population increase in most countries, at least up to the end of the century, regardless of assumptions about fertility rates.

The impact is clear from the simulation exercises. In the first exercise only a slow decline in fertility rates is assumed, and even this is largely, or entirely, negated by the rapid numerical increase in the fertile age groups: in Venezuela the rate of population growth rises marginally during 1975-1985 and then gradually sinks until the end of the century; in Brazil it remains practically constant throughout the period of the projections; and in El Salvador it rises steadily up to the end of the century. At the other extreme, even with the rather unrealistically large decreases in fertility rates assumed in the second exercise, the projected rates of population increase remain in general very high until the last decade of the century.

The second major implication is that young adults tend to account for about half the total labour force, so that the rapid expansion of this age group is a basic factor in the expected enlargement of the labour force itself.

(d) *The labour force*

(i) *Projected trends.* In most of Latin America the labour force will increase rapidly at least to the end of the century, and the simulation exercises clearly demonstrate the certainty of this central conclusion: despite widely divergent underlying assumptions the projections do not differ greatly from one exercise to another. A general impression of likely trends, and possible variations in them, can be given by comparing the projections of the first and of the second exercises (see table 20).<sup>25</sup>

Here, as in most other aspects relating to population, Argentina is clearly a case apart. The labour force in Argentina is likely to increase at rates ranging around 1<sup>1</sup>/<sub>4</sub> per cent per annum during the next few decades, and at the end of the century the total labour force will be perhaps 50 per cent larger than it was in 1970. This rate of increase is higher than that characteristic of most of the high-income industrial countries, but it is closer to their type of situation than to the situation which will prevail almost throughout the rest of Latin America.

In the other countries analysed the rates of increase in the labour force will be 3 per cent per annum or higher in the decades ahead, and at the end of the century the total labour force is likely to be 2<sup>1</sup>/<sub>2</sub> or 2<sup>3</sup>/<sub>4</sub> times its 1970 size. These rates of growth, and the total increase to

which they give rise during the 30-year period of the projection, are very high, and will offer a vitally important challenge to the modern-type industrial development process which characterizes the economies of the region. Historically, during the phase of industrialization in the now highly industrialized countries the labour force was increasing much more slowly, and even so the employment problem was for long periods often critical. In much of Western Europe, for example, reasonably full integration has been achieved only in the post-World War II years, with their unusually favourable record of growth and structural change; and during that period the labour force has been expanding at a rate of around 1 per cent per annum in most countries. It is clear that with the much higher rates of increase which will prevail in most of Latin America the problem of adequate employment opportunities will remain a central issue at least until well into the next century.<sup>26</sup>

<sup>26</sup> It is worth emphasizing the importance of these much higher rates of increase, and this can be done with a simple numerical exercise. The problem, in so far as it relates to employment, is to absorb the labour force into the modern, high-productivity and high-income areas of the economy. This has generally been associated with a shift in the structure of the labour force away from the low-income agricultural sector and toward industrial and high-income service activities. Very large switchovers of this sort have occurred in many of the high-income industrial countries during the post-World War II period, reflecting the strong and continuous industrial expansion. The change which has occurred in three countries considered to have achieved a great deal during this period are noted below. With respect to Western Europe, reference is often made to the Italian and the West German 'economic miracles'; and Japan's case is commonly cited as

<sup>25</sup> The first exercise assumes little change from the 1970 situation, while the second exercise assumes great change. In addition to the different assumptions about population parameters which have been noted before, the first exercise assumes little change in labour participation rates, while the second assumes that in the urban areas these shift to the rates which prevailed in France in 1968.

It has already been pointed out that these very high rates of increase in most countries are a relatively recent phenomenon. The labour force has probably been expanding at mounting speed throughout the post-World War II period, a process which may reach a climax during the 1970s, whereafter

rates of increase may decline somewhat in many countries. As the above figures show, this is not a certainty: somewhat divergent trends occur in the different countries, and with the adoption of different assumptions. But these fluctuations in the rate of increase over the 30-year period of the projections are of

the outstanding success story of this type. From 1955 to 1970, which was a time of very concentrated change in these countries (in Italy the annual growth rate of the gross product was close to 6 per cent, in West Germany slightly more than 6 per cent, and in Japan nearly 11 per cent), labour force structures altered as follows:

		<i>Percentage distribution of the labour force</i>		
		<i>Agri- culture</i>	<i>Indus- try</i>	<i>Servi- ces</i>
Italy:	1955	42.2	32.1	25.7
	1970	17.2	44.4	38.4
Germany:	1955	22.8	43.9	33.3
	1970	8.7	47.0	44.3
Japan:	1955	43.8	27.3	28.9
	1970	19.8	34.1	46.1

The shift out of agriculture and into the higher-income industrial and services sectors is striking in each country. But this must be viewed in relation to labour force growth rates in the years 1955-1970: in Italy the size of the labour force contracted slightly over the period, while in West Germany it increased at the rate of 0.7 per cent per annum, and in Japan by 1.5 per cent per annum.

These rates are much lower than any that will prevail in Latin America. If it is hypothetically assumed that the same process of expansion and the same absorption of labour into the industrial and services sectors would occur, but that the total labour force would be expanding at a rate of 3 per cent per annum, with any residual increase remaining in the agricultural sector, the results would be very

different. On this hypothesis, in both Italy and West Germany the proportion of the labour force in agriculture would increase (to 46.9 per cent in Italy and to 35 per cent in West Germany), while the proportion in industry and services would dwindle, although of course there would be the same absolute increase as actually occurred in these sectors. In the Japan-type expansion the much higher growth rate would still produce a moderate decline in the proportion of the labour force in agriculture (to 35.8 per cent), while the proportion in the industrial sector would remain constant, and there would be an offsetting increase in the proportion engaged in services. Hence, with the rates of increase in the labour force to be expected in most of Latin America in the decades ahead, an 'economic miracle' of the Italian or West German variety would not improve the structure of the labour force; the proportion underemployed (for which the agricultural sector is here used as a proxy) would actually rise. Even a 'miracle' of the Japanese kind would lead only to a moderate improvement: if the labour force were increasing by 3 per cent per annum (and it will do so even faster in some countries), the proportion underemployed would decline from 43.8 per cent to 35.8 per cent over a 15-year period and there would be no increase in the proportion in the industrial sector.

As noted earlier, modern-type industrial expansion does not readily absorb large quantities of labour. If the labour force is increasing rapidly, the absorption of most of it into the high-productivity sectors is apt to require extremely high economic growth rates. In the past such shifts have been achieved in circumstances where the labour force was increasing at much more moderate rates.

secondary importance. The main conclusion must be that, at least to the end of the century, the labour force will continue to grow very rapidly in most countries.

Before examining in more detail the different aspects and implications of these trends it is important to clarify the two major factors underlying the aggregate increase, and the relative importance of each. The first factor is simply the growth of the population in the active age groups in the different countries. As has been discussed in some detail earlier, in most countries the total population will increase rapidly over the period of the projections, and the relative importance of the active age groups as a whole is likely to rise substantially: that is, the population in these groups is

likely to increase a good deal more quickly than the population as a whole. The young adult group will expand particularly fast, especially during the 1970s and 1980s, and as noted this age group alone tends to account for around half of the total labour force. The second most important group in the labour force is that of more mature adults (40-64 years of age), and this group too can be expected to increase more rapidly than the population as a whole. This rapid increase in the population in the active age groups will alone ensure a very large expansion of the labour force, irrespective of any reasonable assumptions which might be made about labour participation rates.

(ii) *Labour participation rates.* The second major factor underlying the

Table 20  
SELECTED COUNTRIES: LABOUR FORCE TRENDS TO THE END OF THE CENTURY

	<i>Argentina</i>	<i>Brazil</i>	<i>El Salvador</i>	<i>Venezuela</i>
Actual increase 1965-1970 (per cent per annum)	1.4	3.1	3.2	3.4
Increases projected in exercise I (per cent per annum)				
1970-1980	1.2	3.0	3.6	3.6
1980-1990	1.1	3.0	3.6	3.3
1990-2000	1.2	3.1	3.8	3.3
Increases projected in exercise II (per cent per annum)				
1970-1980	1.6	3.4	3.6	3.9
1980-1990	1.4	3.3	3.5	3.4
1990-2000	1.2	3.0	3.2	3.1
Size of the labour force in 2000 (1970 = 100)				
Exercise I	141	244	291	274
Exercise II	153	262	277	278

Table 21  
**SELECTED COUNTRIES: ESTIMATED FEMALE LABOUR PARTICIPATION RATES**

Age group	Argentina 1960		Brazil 1970		El Salvador 1960	Venezuela 1960	France 1968
	Urban North	Urban South	Less- devel- oped urban	Devel- oped urban	Urban	Urban	
15-19	.350	.369	.222	.388	.311	.222	.313
20-24	.419	.459	.281	.437	.407	.327	.623
25-29	.338	.332	.232	.327	.381	.305	.507
30-44	.278	.254	.212	.281	.329	.279	.424
45-49	.223	.212	.205	.238	.285	.236	.455
50-54	.184	.163	.195	.189	.267	.203	.453
55-59	.148	.121	.181	.143	.229	.170	.423
60-64	.114	.087	.159	.095	.204	.140	.324
65-69	.087	.065	.124	.063	.169	.110	.150
70 and over	.052	.037	.066	.029	.114	.064	.020

aggregate increase consists in possible changes in labour participation rates, and although it is clearly the less important of the two, it can also have a strong impact in some circumstances. The situation here is a good deal more complicated, and 'reasonable' assumptions to be used in the projections are more difficult to define.

Perhaps the first point to note in a more detailed analysis is that labour participation rates at the national level must be treated with caution, as they combine the rural and urban population, and participation rates in the two areas are likely to be quite different. Male participation rates are generally significantly higher at all ages (but particularly for adolescents and for older men) in the rural areas, where female participation rates, by contrast, tend to be much lower. These differences probably reflect

at least in part registration conventions in the rural areas — nearly all men regard themselves as members of the labour force, while women do not— and so rural participation rates, and projected changes in those rates, are probably less meaningful from the present point of view. For this reason, as well as because greater importance is usually attached to the problem of urban employment, owing to the general social and political context in which it arises, the following discussion concentrates on labour participation rates in the urban areas.

It is female labour participation rates which present the greatest scope for possible change and so can most affect the increase in the labour force. Since they are quite low in Latin America, even in the cities, if more women should enter the labour force, for whatever reason, the impact might possibly be

quite significant. Even within Latin America, however, there is a good deal of variation from one country and region to another, and it is best to present the estimated age-specific participation rates in the different urban areas before proceeding; the rates prevailing in France in 1968 are shown for purposes of comparison.<sup>27</sup>

Participation rates for adolescents and for elderly women are often somewhat higher in the Latin American urban areas than in France; but for all the rest of the age range they are much lower, so there is great scope for an increase in the number of working women in all the countries analysed. How large an increase might actually occur depends of course on the reasons for the present low participation rates and the extent to which anticipated changes might alter that situation; and this is very difficult to specify. One important reason for the relatively small proportion of working women in Latin America may simply be a lack of employment opportunities; the availability of more and/or better opportunities might alone suffice to raise commensurately the numbers in the labour force. A comparison of labour participation rates in the different areas does not give much support to this hypo-

<sup>27</sup> The French rates are for the country as a whole rather than for the urban area. They were used in the simulation exercises as a possible 'target' toward which rates might move. The French rates were chosen as they occur in a diversified, industrialized urban economy, where the social structure is perhaps closer to that of Latin America than in the case of some of the other high-income economies of Western Europe. These rates therefore provide an indication of the direction in which labour participation rates might move as industrialization advanced in the region. As will be noted in the text, however, a great deal of uncertainty exists in this area.

thesis, however. In Argentina, for example, female participation rates are somewhat higher in the urban South up to the age of 25; but for women over 25 they are higher in the urban North, and it is unlikely that there are greater opportunities in the North than in the South. Further, for the female population as a whole the highest rates are found in El Salvador, where income levels are lower and opportunities probably less attractive than in most of the other urban areas analysed. The opposite economic motive might even be adduced to explain these comparative figures: that is, women tend to work primarily from necessity. But this hypothesis in its turn is contradicted by the fact that, up to the age of 50, the lowest rates occur in the less-developed urban area of Brazil, where income levels are lower than in most other urban areas and the pressure to work, therefore, presumably greater.

Both these factors, plus many others, probably play a part in the determination of female participation rates. The fairly clear conclusion to be drawn from an examination of participation rates in different countries is that these are to a major extent a reflection of the entire, and quite specific, socio-cultural environment. As such they may vary widely from one urban area to another, and it is unlikely that any simplified set of economic or other factors can satisfactorily explain these differences or make it possible to predict future trends.<sup>28</sup>

<sup>28</sup> This can be even more graphically illustrated by noting female participation rates in countries outside Latin America, where extreme variations can be found. A number of these, admittedly picked to show divergencies, follow (the figures are taken from the ILO *Labour Statistics Yearbook*).

Considered in these terms, the general structure of female participation rates in Latin America is worth noting. In all of the countries analysed participation rates are highest for very young women (reaching their peak in the 20-24 year age group), and then decline quite rapidly after the age of 30; although there are again important differences in both levels and structure from one area to another. This general structure suggests that by far the majority of women view

work outside the home not as a career, but rather as a transitory phase, prior to marriage, or the formation of a family, or perhaps until the male head of the family is more firmly established. It may also be linked to the type of activities open to women; these may be mostly casual, unskilled jobs offering little incentive to the formation of a longer-term, career-oriented outlook.

These are clearly broad socio-cultural aspects of a society, in which changes are difficult to project and will not necessarily be closely associated with economic or any other limited set of variables. About all that can definitely be said is that if the role of women in society and their attitude to work outside the home should change, there could be a very large increase in the number of women in the labour force. The solution to this difficulty, where the simulation exercises are concerned, has been, as already noted, to select the 1968 French participation rates as a possible 'target'. In so far as the general environment changes, participation rates might move part or all of the way to those levels, and this is the sort of assumption adopted in the exercises. It must be kept in mind, however, that such assumptions are to a considerable extent arbitrary.

The situation with respect to male labour participation rates is more straightforward; again for the reasons cited earlier, only the urban rates are estimated (see table 22).

By comparison with the French standard, male participation rates in Latin America tend to be relatively high for the very young (teenagers and those in their early twenties) and for the elderly (the 65-plus age group), probably reflecting somewhat lower attendance ratios in secondary and higher educational institutions, and less complete social security

#### FEMALE LABOUR PARTICIPATION RATES

Age group	Egypt 1966	Mozambique 1970	Ghana 1970	Netherlands 1971	Denmark 1970	Norway 1970	Finland 1970
15-19	.073	.323	.392	.493	.478	.298	.336
20-24	.078	.327	.614	.556	.675	.484	.626
25-29		.314	.650	.252	.587	.348	.677
30-44	.053	.309	.739	.230	.561	.279	.676
45-49		.348	.779	.231	.554	.349	.642
50-54	.051	.355	.790	.214	.505	.351	.589
55-59		.351	.755	.183	.410	.320	.494
60-65	.017	.339	.711	.126	.261	.245	.292
65		.244	.475	.028	.053	.056	.036

The first three are all low-income countries in Africa, yet female participation rates run the entire gamut from extremely low in Egypt through moderate in Mozambique to very high in Ghana. The Netherlands and Denmark are both high-income industrialized countries of Northern Europe, yet rates are much higher in the latter (except for adolescents), just as they are in Finland as against Norway, although both are Scandinavian countries. Differences in statistical methods are no doubt part of the problem, but much more is involved. As stated in the text, female labour participation rates are clearly the result of a large number of factors, many of which are specific to the particular country or area concerned. Even within a given area the situation can change substantially in fairly short spaces of time; this is evident from the substantial increases in female participation rates which have occurred in a number of the high-income industrial countries in recent years.

coverage for the elderly. From the age of 25 to the age of 50 participation rates tend to be quite similar to those in France; nearly all males are participating members of the labour force during these most active adult years.

The divergence among countries occurs primarily in the 50-65 age groups. Male participation rates throughout this age range are relatively high in El Salvador and Venezuela –well above the French rates; whereas in Argentina and Brazil they decline rapidly, particularly in the more developed regions in the two countries, and are well below the French level.

In overall terms, while there is some variation in male labour participation rates among the different countries, this

is much less than in the case of female participation rates; and the general level is also closer to that found in France. If male participation rates should move toward the French 'target' rates, as assumed in several of the simulation exercises, the result would be a significant decline in the male labour force in El Salvador and in Venezuela, but little overall change in Argentina and Brazil.

In the study of possible changes in labour participation rates, and the effect they might have on the size of the labour force, all these elements should be considered in combination; the total result may easily be quite different from that obtained by taking any single aspect in isolation. The major factor here is that the changes might produce opposing

Table 22  
SELECTED COUNTRIES AND AREAS: ESTIMATED MALE LABOUR  
PARTICIPATION RATES

Age group	Argentina 1960		Brazil 1970		El Salvador 1960	Venezuela 1960	France 1968
	Urban North	Urban South	Less- devel- oped urban	Devel- oped urban	Urban	Urban	
10-14	.052	.061	.081	.075	.108	.080	.025
15-19	.630	.659	.485	.487	.602	.530	.528
20-24	.876	.884	.841	.842	.878	.899	.826
25-29	.857	.964	.926	.920	.941	.963	.951
30-44	.970	.974	.937	.941	.962	.972	.972
45-49	.946	.938	.894	.896	.963	.964	.949
50-54	.879	.841	.834	.807	.954	.940	.914
55-59	.738	.643	.799	.694	.935	.906	.825
60-64	.587	.469	.583	.525	.907	.790	.657
65-69	.490	.357	.548	.372	.868	.700	.300
70 and over	.332	.224	.266	.155	.682	.490	.100

trends in the male and in the female labour force: participation rates for women could rise substantially, thereby greatly increasing the number of women in the labour force, but male participation rates are more likely to decline and so partially offset such an increase.

The potential overall impact of changes in participation rates can be deduced from the projections of the second exercise, where it is assumed that by the end of the century urban participation rates move to the 'target' 1968 French level (see table 23).

As the figures show, such changes would be of some importance everywhere, but there is considerable variation from one urban area to another. The weakest impact would be in El Salvador. Urban female participation rates are already relatively high in that country, so that a shift to the French level would

result in only a 30 per cent increase in the size of the female labour force—substantial, but much smaller than in the other countries. And as the active population will be expanding very fast, the assumed change in participation rates accounts for a more moderate 28 per cent of the total projected increase in the female labour force. Male participation rates are also quite high in El Salvador, so that assimilation to those of France would markedly reduce the male labour force, although still not very greatly in relation to the total projected increase up to the end of the century. Finally, since the assumed change produces opposing effects on the male and the female labour forces, these largely offset each other and the size of the labour force as a whole is little affected. The impact on the female labour force would be a good deal more pronounced in

Table 23  
RELATIVE IMPACT OF CHANGES IN LABOUR PARTICIPATION RATES  
ASSUMED IN THE SECOND SIMULATION EXERCISE

	<i>Percentage change in size of labour force in 2000 due to changes in labour participation rates</i>			<i>Percentage of increase in labour force 1970-2000 due to changes in labour participation rates</i>		
	<i>Total</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>	<i>Male</i>	<i>Female</i>
<b>Argentina</b>						
urban North	10.8	-4.0	57.1	23.7	-11.9	67.5
urban South	14.4	-1.2	64.1	29.1	-3.5	65.6
<b>Brazil</b>						
urban less-developed	21.9	0.5	87.8	25.4	0.8	58.2
urban developed	15.4	3.5	48.9	17.8	4.7	41.7
El Salvador: urban	2.7	-8.1	30.7	3.3	-11.2	27.9
Venezuela: urban	8.7	-8.5	66.7	11.6	-14.5	50.0

Venezuela, but otherwise the situation is much the same as in El Salvador, and the overall effect would be quite moderate.

In Argentina and Brazil the incidence of the assumed change would be considerably greater: the female labour force would be much enlarged, and as male participation rates are lower there would be less of an offsetting decrease in the male labour force (which would actually increase in Brazil). As a result, the total labour force would increase substantially, and the shift in labour participation rates would account for a sizable part of the projected increase in both countries.

The foregoing remarks are all based on the assumption that by the end of the century labour participation rates will have fully reached the French levels. In so far as they move in that direction, but to a lesser degree, as assumed in other simulation exercises, the impact is of course modified, but still of the sort discussed here.

The substantial variations from one country to another mean that this is another aspect which will need to be closely followed up to determine trends in any particular area. Clearly, concern will be primarily with female participation rates, where there is great scope for change in all countries, with consequent large potential increases in the female labour force, and where the factors which might bring about such change are likely to be quite specific to the area concerned. Possible changes in male labour participation rates would have a much smaller impact on the male labour force, and are more uniform and probably easier to predict.

While possible changes in labour participation rates are of considerable importance, it should again be stressed that they are not the major factor in the

rapid projected growth of the labour force. Even in the second experiment, where the impact of changing participation rates is greatest, it accounts for only 3 per cent to 29 per cent of the total projected increases; in the other exercises its relative importance is less. The paramount factor is the increase in the population in the active age groups.

(iii) *Trends in individual areas.* The next aspect to be considered is where the aggregate increase is likely to be concentrated, and the probable rates of increase which this implies in the different areas of the countries analysed. Since population growth in the active age groups is the major determinant of the increase in the labour force, the earlier observations on general population shifts and rates of total population growth in the different areas provide the essential background, and the discussion here should be read in that context.

In rural-urban terms, of course, it is primarily the cities which will have to cope with the problem of adequate employment opportunities in the decades ahead. Even if there should be very little rural-urban migration the bulk of the increase will occur in the urban areas. In the first exercise, where little migration is assumed, it is nevertheless in the urban areas that around 85 per cent of the total increase in the labour force to the end of the century is found in Argentina and Venezuela, and over two-thirds in Brazil; only in El Salvador is the proportion slightly less than one-half. If substantial migration is assumed nearly all the increase will take place in the urban areas. Thus, in the third exercise (substantial migration but less massive than in the second exercise) less than one-sixth of the increase in the labour force is in the rural area even in El Salvador, and in the other countries the proportion is negligible.

In general, then, pressures for additional employment opportunities are, to say the least, unlikely to be rapidly intensified in the rural areas; but prevailing conditions vary greatly. If large-scale migration continues labour shortages might possibly develop in some rural areas, particularly in the rural South in Argentina, but perhaps also in Venezuela or the developed rural area in Brazil; and in any case it is improbable that employment opportunities will be a serious problem here.<sup>29</sup> In El Salvador or the less-developed rural area in Brazil, however, the rural employment problem is likely to remain of much greater importance. At least until 1970 the rural labour force was still increasing very rapidly in El Salvador, and moderately rapidly in the less-developed region of Brazil, and if these rates of increase continue, pressures for employment will of course be stepped up. Moreover, even if large-scale migration should sharply slow down the expansion in the coming decades, the pressures in such areas have already been built up to the point where they will probably remain severe for a long time. But it is still true that, from the national point of view, the employment problem will not necessarily be concentrated in areas like these. In El Salvador slightly over half of the increase in the labour force will occur in the rural areas if there is no significant migration, but to the extent that migration to the cities takes place on a larger scale, the problems will shift to the urban area even here. And in Brazil less than one-

<sup>29</sup> This does not mean that the problem of low rural incomes, or even rural poverty, will necessarily disappear in such areas. More or less adequate employment opportunities should certainly improve these conditions, but their elimination is likely to depend on other factors outside the scope of this study.

fifth of the increase will be produced in the less-developed rural area, even if there is little migration; in so far as migration occurs the proportion will be still smaller.

Setting aside the strict rural-urban division and thinking instead in terms of low-income areas, there are two such areas in the countries analysed which will probably be of major concern in this respect. The first, as already noted, is the rural area in El Salvador. If migration trends pursue the pattern of the recent past, half the labour force increment will be in the rural area, and even if more migration takes place, a significant part of the increase is likely to occur there for some years to come. The second is the less-developed region in Brazil, where if there is little migration (as in the first exercise), well over 40 per cent of the total increase in Brazil's labour force will originate, and well over 30 per cent even with large-scale migration (as in the third exercise). Most of this growth will take place in the cities of the region, but at all events the employment problem will have to be dealt with to a major extent within the less-developed region of the country.

It is in the urban areas, however, that the bulk of the increase will occur, and as unemployment here tends to be more overt, and to exert greater social and political pressures, it is of particular interest to determine how fast the urban labour force is likely to expand. Much will depend on the scale of migration, and on how much labour participation rates change, and the range of possibilities can be determined by examining the results of the first exercise (little change from the 1970 situation) and the third exercise (substantial change, but less extreme than the changes assumed in the second exercise). The relevant figures

from these two exercises are presented in table 24.

As the figures show, with the partial exception of Argentina, the labour force in the urban areas will expand greatly during the 30-year period of the projections. Given the assumptions of the first exercise, the labour force in the urban South in Argentina will increase by only about one third, i.e., at an average rate of 1 per cent per annum. With the assumptions of the third exercise the increase will be about twice as large; and in the urban North it will be significantly bigger with either set of assumptions. Possible changes in labour participation rates are of considerable importance in the urban areas of Argentina, particularly in the South. In the urban South fertility rates have already declined to quite low levels and the rate of natural increase in the active age groups will be fairly slow; and as close to two thirds of the labour force was already concentrated in the area in 1970, migration can no longer have such powerful impact. Thus, if there is no change in labour participation rates, the labour force in the urban South, with or without migration, will increase only to a fairly moderate extent,<sup>30</sup> and it is the possibility of a substantial increase as a result of rising participation rates that induces it with an element of flexibility; this is of considerable importance in Argentina. The major point to note is that the increase in the urban labour force in Argentina will be fairly moderate whatever the assumptions made; again the situation is clearly differentiated from that in most of the rest of the region.

<sup>30</sup> In the third exercise, with its assumption of large-scale migration, the labour force would increase by only about 45 per cent up to the end of the century if labour participation rates remained constant. The difference between this

In all the other urban areas considered the increase in the labour force will be much bigger. Even if there is no large-scale migration the labour force at the end of the century will be about  $2\frac{2}{3}$  times its 1970 size in the less-developed urban area in Brazil, and the range then stretches upward to  $3\frac{1}{4}$  times the 1970 size in the urban area in El Salvador. If there is substantial rural-urban migration, which has been the case in most regions in the past and is likely to be in the future, the increases will be still larger. In the projections of the third exercise the urban labour forces increase to around  $3\frac{1}{2}$  times their 1970 size by the end of the century, except in El Salvador, where the corresponding figure is 4.8 times. As can be seen from the table, although there is some variation, such figures imply that up to the end of the century urban labour forces can be expected to increase at rates ranging around 4 per cent per annum.

Such rates are extremely high, and virtually ensure that the problem of urban employment will remain a central concern in most of the region at least until the end of the century.<sup>31</sup> Nevertheless, it is very important to note that, in one

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figure and the 63 per cent increase shown in the table reflects the impact of the assumed changes in participation rates.

<sup>31</sup> The difficulty of absorbing an increase of this magnitude in a modern, urban-oriented pattern of industrial development can be illustrated by referring again to favourable post-World War II experiences. In 1955-1970, a period during which Japan's gross product increased at an average rate of close to 11 per cent per annum, employment increased at annual rates of 3 per cent in the industrial sector and 3.9 per cent in the industrial and services sectors combined. In Italy and West Germany, where the gross product increased at around 6 per cent per annum during the period, employment in the industrial and services

Table 24  
**PROJECTED INCREASES IN THE LABOUR FORCE IN  
 SELECTED URBAN AREAS, 1970 TO 2000**

	<i>Argentina</i>		<i>Brazil</i>		<i>El Salvador</i>	<i>Venezuela</i>
	<i>Urban North</i>	<i>Urban South</i>	<i>Urban less-developed</i>	<i>Urban developed</i>	<i>Urban</i>	<i>Urban</i>
Size of the labour force in 2000 (1970 = 100)						
Exercise I	187	134	265	285	325	299
Exercise III	182	163	349	350	479	323
Actual rates of increase, 1965-1970 (per cent per annum)	3.0	1.9	4.9	5.8	3.4	4.9
Rates of increase projected in exercise I						
1970-1980	2.2	1.1	3.3	3.8	4.0	4.0
1980-1990	2.1	0.9	3.3	3.4	4.0	3.6
1990-2000	2.0	1.0	3.3	3.4	4.0	3.6
Rates of increase projected in exercise III						
1970-1980	2.3	1.8	5.5	4.6	6.3	4.5
1980-1990	2.2	1.9	4.0	4.2	5.2	3.9
1990-2000	1.6	1.8	3.3	4.0	4.6	3.6

sense, the period of maximum pressure has already passed in many of the urban areas of Latin America. As table 24 shows, in most of them the rate of increase in the later 1960s was higher than that projected for the decades

sectors combined increased at annual rates of 2.4 per cent and 1.8 per cent, respectively. Such past experience indicates that modern-type industrial expansion, even when very rapid, tends to be achieved with only moderate increases in employment in the high-productivity sectors.

ahead. Thus the pressure for employment, in so far as the growth rate of the labour force is an adequate measure of it, can be expected to ease in many urban areas.

The reason for this slower rate of increase is again linked to the extent to which the shift to the cities has already occurred, and has been analysed earlier in relation to the population as a whole. A more precise appreciation of the labour force situation would require estimates which take into account past

changes in urban labour participation rates, and these have not been made. With that margin of uncertainty, it is nevertheless clear that the period of most rapid expansion of the urban labour force in Venezuela occurred during the 1950s; although still very high, the rate of increase has already fallen from that peak level and can be expected to decline further in the decades ahead. The same general pattern is characteristic of Argentina and Brazil, although the fluctuations have been more moderate, and, in Brazil, the period of most rapid increase was also more recent.<sup>32</sup>

The only urban area considered where that period manifestly lies ahead is El Salvador's. Rural-urban migration in that country has been limited, and has not been a major factor in the increase in the urban labour force in recent years. Even apart from migration the urban labour force will tend to increase somewhat faster in the years ahead as a result of population growth in the active age groups; and if substantial migration to the cities should begin, the increase, as shown by the figures in the table, could be very rapid indeed.

But although the growth rate of the labour force is very important, it is not the only determinant of the pressure for employment opportunities. A further basic factor is the prevailing situation: that is, how much pressure has already been built up. If the past very rapid increase in the urban labour force has led

to a situation where a large pool of unemployed or under-employed has already been formed, a slowing of the rate of increase may mean only that the pool of under-employed will expand less rapidly; it will not necessarily shrink, and so the pressures for employment will not necessarily diminish. The number of unemployed will decline only if new employment opportunities are created faster than the labour force is increasing, and since the labour force will continue to increase very quickly in most urban areas, this will be difficult to achieve.

The magnitude of existing pressures could well be the main consideration in such circumstances, and this is one of the critical aspects of the transition from a basically rural to a basically urban population structure. The transition has tended to be a rapid one in many countries, involving mass migration which for a 20-to-30-year period has produced a galloping increase in the urban labour force. If the urban economic structure has been sufficiently dynamic and flexible to cope with this influx (although severe problems are unlikely to have been avoided even in the best of circumstances), the passing of the transition period will bring lower rates of increase and the urban employment problem may become more manageable. If, on the other hand, the transitional influx has tended to overwhelm the urban economy, the passing of the transition period and a slower growth rate of the labour force may not, in itself, generate any fundamental change. Such conditions probably vary widely from one extreme to the other in the different urban areas of the region.

Another aspect of the passing of the transitional phase is the effect this will have on the composition of the urban labour force. The very high rates of

<sup>32</sup> There are also important regional differences in these countries. The period of most rapid increase has passed in most urban areas; the possible exception is the less-developed urban region of Brazil, where the already rapid expansion might speed up temporarily if migration should increase.

increase in the recent past in many urban areas are a reflection of the large influx of rural workers. Rural migrants have probably often accounted for one-third to one-half of the increment in the urban labour force, and workers with a still limited experience of urban life have formed a sizable proportion of the urban total. As the period of transition passes migrants will be of declining importance and the situation will change. New entrants in the urban labour force will increasingly be dominated by those who were born, or at least have grown up, in the cities, and those with limited experience of urban life will no longer constitute a substantial part of the total labour force. Expectations, and responses, may well change in these altered circumstances, and the pressures for adequate employment opportunities may take somewhat different forms.

A final aspect of the growth of the labour force worth noting is that it often differs significantly from the growth of the population as a whole. This results to a large extent from changing age structures. As was pointed out earlier, the transition to higher rates of population growth, which occurred in many countries in the 1940s, initially tended to cause a sharp increase in the number of children, and this bulge then began working its way gradually through the different age groups, with corresponding changes in the age structure. The downturn in fertility rates, too, as far as it goes, produces changes in the age structure. In the individual areas within a country migration can cause further shifts, as it affects particularly the very young; and, finally, changes in labour participation rates can cause labour force trends to diverge from those of the population as a whole, particularly in the urban areas. The possible extent of such divergence can be quite

substantial, as illustrated by results from the projections of the first and the third simulation exercise (see table 25).

In Argentina, the labour force of the country as a whole increases marginally less than the total population in the first exercise (little change from the 1970 situation), but in all the other countries it increases more, even in this exercise; in the third exercise, with substantial assumed changes, its growth rate is higher than that of the population in all countries, and the divergence is much greater. In area terms there are also significant differences, and considerable variation from one area to another; in particular, the labour force in some rural areas may increase less than the population, while the relation is reversed in the cities.

One implication of these divergences is simply that population trends are often a poor indicator for estimating changes in the labour force. In most countries of the region the labour force probably increased a good deal less rapidly than the population as a whole from around 1940 to the mid-1950s, whereas since about 1960 the relationship has been reversed. This sort of situation is important as it is one factor in the emerging employment problem. Comparative trends in the individual areas are more complex and there is even more need to keep such possible divergences in mind.

A second implication is that such divergences reflect shifts in activity rates (total labour participation rates),<sup>33</sup> and thus affect trends in per capita income levels, quite apart from changes in levels

<sup>33</sup> Activity rates, defined as the ratio of the total labour force to the total population, are of course nothing more than a measure of the concept under discussion.

of productivity. There was a good deal of variation in activity rates in 1970, and as the above discussion indicates they may change substantially in the decades ahead. Illustrative figures for 1970 and 2000 with the projections of the third simulation exercise are shown in table 26.

Argentina again stands apart, with the activity rate at a considerably higher level in 1970. The total figures for the other countries are quite similar, but within Brazil (as to a lesser extent within Argentina) there is a good deal of difference along regional lines, with the activity rate in the more developed region distinctly higher. These higher activity rates in Argentina (and in the more developed regions) mean that per capita incomes in those areas will be bigger, even apart from possible differences in productivity per member of the labour force; in effect, a given volume of

production per worker is shared with a smaller number of inactive persons.

With the assumptions of the third exercise activity rates everywhere will rise substantially, and in general the disparities will be reduced. Part of the rise is the result of the very rapid increase in the labour force which will occur in most of the region, and this poses the vital problem of adequate employment opportunities. But a further major factor is the less rapid growth of the non-active population, and this can be an important factor in raising per capita incomes; it is the relatively immediate economic benefit that results from a decline in fertility rates.

Changes of this sort can be of considerable importance. From around 1940 to the mid-1950s total activity rates probably fell significantly in many countries of the region, and this tended to hold down the increase in per capita incomes;

Table 25  
SELECTED COUNTRIES AND AREAS: PROJECTED SIZE OF THE  
POPULATION AND OF THE LABOUR FORCE IN 2000

(1970 = 100)

	<i>Exercise I</i>		<i>Exercise III</i>	
	<i>Population</i>	<i>Labour force</i>	<i>Population</i>	<i>Labour force</i>
Argentina: total	142	141	134	150
South rural	124	113	82	82
South urban	134	134	145	163
Brazil: total	237	244	212	257
less-developed rural	196	191	98	96
developed urban	263	285	279	350
El Salvador: total	280	291	255	286
Urban	311	325	433	479
Venezuela: total	248	274	229	282
Urban	273	299	262	323

Table 26  
**SELECTED COUNTRIES AND AREAS: ACTIVITY RATES**

	1970	2000 (projections of the third exercise)
Argentina: total	37.9	42.6
urban North	35.4	41.1
urban South	39.1	43.8
Brazil: total	31.7	38.4
less-developed urban	28.1	35.1
developed urban	35.0	43.8
El Salvador: total	31.6	35.5
Venezuela: total	30.6	37.6

that is, given the improvement in productivity per member of the labour force which occurred, there was a smaller increase in per capita incomes because the number of inactive persons per member of the labour force was rising. The reversal of this trend probably began around 1960 in much of the region, and in the projections of the third simulation takes a sharply opposite turn. With the rise in activity rates shown, even if there were no increase in productivity per member of the labour force, per capita incomes would rise by well over 20 per cent by the end of the century in Brazil and Venezuela, for example.

(iv) *Changes in the structure of the labour force.* In addition to the changes in size, there are likely to be major changes in the structure of the labour force in most of the region. The most important of these is the continuing shift toward a predominantly urban labour force. Its nature and significance has already been analysed above, and all that is necessary here is to emphasize the extent to which

the labour force in the region is likely to be urban by the end of the century. In 1970 the great bulk of it was already urban in the more highly developed regions of Argentina and Brazil, and in Venezuela; but a major proportion of the total was still rural in the other regions of Brazil and in El Salvador. Even with the assumption of little change in the first exercise there is a steady rise in the relative importance of the urban labour force everywhere, and if substantial migration continues the shift will of course be much greater. Given the assumptions of the third exercise, over two-thirds of the labour force will be urban at the end of the century in El Salvador, and the proportion rises to well over 90 per cent in the more developed regions of Argentina and Brazil (see table 27).

A second major change which is likely to occur relates to the structure of the labour force by sex. In 1970 males heavily dominated the labour force everywhere, but the relative importance

of women will probably increase in the decades ahead. To some extent this aspect of the changing structure of the labour force is linked to the rural-urban shift: since in the rural areas the proportion of the labour force formed by male workers (generally around 90 per cent of the total) is larger than in the cities, the movement to the urban areas will itself tend to increase the relative importance of women in the labour force as a whole. But most of the prospective change here will occur to the extent that labour participation rates shift toward Western European levels. As was discussed earlier, such a shift could result in a very large increase in the number of working women, whereas the number of active males would be more likely to decline, and the structure of the labour force would change accordingly. The extent of the change which might occur is indicated in the projections of the third

exercise (see table 28). Males will still constitute around 70 per cent of the total labour force in the different countries – and about two-thirds in the urban areas – but the projected shift is nevertheless quite substantial.

Finally, notable changes in the age structure of the labour force are also likely. In 1970 the labour force in Latin America was a very young one: young adults accounted for about half of the total, and teenagers for a further 15-20 per cent. The proportion of older to younger workers was therefore rather low, and this may have significant implications: on the one hand, a young labour force has obvious advantages in that young workers are more flexible and more easily trained, qualities which in a rapidly changing economic structure can be of considerable value; on the other hand, the older but still fully active members of the labour force are apt to

Table 27

**SELECTED COUNTRIES: PERCENTAGE DISTRIBUTION OF THE LABOUR FORCE BETWEEN RURAL AND URBAN AREAS**

	1970		2000 (projections of exercise I)		2000 (projections of exercise III)	
	Rural	Urban	Rural	Urban	Rural	Urban
<b>Argentina: total</b>	20.0	80.0	19.1	80.9	11.4	88.6
North region	43.1	56.9	38.3	61.7	27.0	73.0
South region	12.3	87.7	10.6	89.4	6.6	93.4
<b>Brazil: total</b>	44.3	55.7	36.6	63.4	20.5	79.5
less-developed region	58.4	41.6	50.4	49.6	27.8	72.2
developed region	14.9	85.1	11.5	88.5	5.9	94.1
<b>El Salvador: total</b>	58.9	41.1	54.1	45.9	31.2	68.8
<b>Venezuela: total</b>	24.5	75.5	17.8	82.2	13.4	86.5

Table 28  
**SELECTED COUNTRIES AND AREAS: PERCENTAGE COMPOSITION  
 OF THE LABOUR FORCE, BY SEX**

	1970		2000 (projections of exercise III)	
	Male	Female	Male	Female
Argentina: total	78.0	22.0	69.6	30.4
North urban	73.2	26.8	67.6	32.4
South urban	75.6	24.4	67.5	32.5
Brazil: total	79.5	20.5	70.6	29.4
less-developed urban	74.9	25.1	64.5	35.5
developed urban	71.6	28.4	67.8	32.2
El Salvador: total	83.0	17.0	72.9	27.1
Urban	70.6	29.4	65.4	34.6
Venezuela: total	80.6	19.4	70.0	30.0
Urban	77.0	23.0	66.9	33.1

be more stable and more experienced; and as the economy becomes more complex—in particular as the industrial sector expands—these aspects of the question are likely to carry increasing weight. In the high-income industrial countries the balance between the two large adult age groups is much more even (in France in 1968, for example, young adults formed about 46 per cent of the labour force and the older active adult group 42 per cent) and this will probably be a factor of some importance.

Within the region labour force age structures already varied considerably in 1970, and, as noted, are likely to change further in the years to come. They also vary a great deal within each country, both by area and by sex, and the national aggregates, and changes in those aggregates, may not be very meaningful unless this is taken into account. The

1970 figures for these different groupings are shown in table 29, along with the end-of-the-century results from the projections of the third exercise, to give an idea of the sort of changes likely to occur.

At the national level young adults are of similar relative importance in all countries; the differences tend to be concentrated more in the relative importance of teenagers and the active older adult group. Again Argentina stands apart, this time because the labour force is not as young as in the other countries, with the proportion of more experienced older adults substantially larger. In area terms the proportion of teenagers is higher in the rural labour force, and in general in the less highly developed regions, but particular patterns of migration flows can have an important and varying impact on age structures.

Finally, the female labour force is much younger than the male labour force, and a somewhat different age classification would make this contrast still greater; within the young adult labour force women tend to be much more heavily concentrated in the first half of the age range (20-29) than men.

As the age structure of the population as a whole gradually changes and—more important in the decades immediately ahead—to the extent that labour participation rates shift toward Western European levels, labour force age structures will themselves alter. While in general the labour force can be expected to be somewhat more mature, and experienced, at the end of the century, there are substantial differences in respect of how and how far this is likely to occur.

With the projections of the third exercise the changes in the rural areas are quite small, but too much importance should not be attached to these figures.<sup>34</sup> Perhaps the most significant rural change is the consistent rise in the relative importance of the over-65 group in the labour force, caused by the draining away of the more active age groups through migration.

The changes in all the other groups are much more substantial. The greatest shift occurs in the structure of the urban female labour force, where the move-

ment of labour participation rates towards the Western European levels is the primary factor in producing a sharp decline in the relative importance of teenagers and a counterbalancing increase in that of active adults, usually concentrated in the more mature adult group. At the end of the century the age structure of the female labour force much more closely resembles that of the male labour force. The male labour force itself changes in a similar way, but to a much lesser extent. And of course the shift in the total urban labour force, being the sum of the male and female age structures, is also of the same nature.

But as aggregation proceeds a divergence between the different countries becomes increasingly clear, and at the total national level is quite marked. In all the countries analysed the labour force becomes somewhat more mature, but the sense in which this is true varies from one country to another. In Argentina the age structure of the labour force shifts manifestly closer to that characterizing the high-income industrial countries: the relative importance of teenagers declines, and this is offset by an increase in that of the more mature but still fully active adult age group, which was already of considerably greater relative importance than in the other countries considered.

In these other countries the relative importance of teenagers also decreases, but the offsetting gain appears to a much greater extent in the young adult age group. In Brazil the relative increase is somewhat greater in the more experienced adult group, and so the change is more similar to that in Argentina, but in El Salvador and in Venezuela the relative increase is heavily concentrated in the young adult group.

As a consequence, at the end of the century Argentina is further removed

<sup>34</sup> As has been pointed out before, labour participation rates in the rural areas are probably less meaningful than those in the urban areas, and little or no change in them has been assumed in the third exercise. The changes shown in the table therefore reflect changes in the structure of the population as a whole, which in its turn can be greatly influenced by migration; and here too caution must be used because of the way in which migration is treated in the model.

Table 29  
**SELECTED COUNTRIES: PERCENTAGE COMPOSITION OF THE LABOUR  
 FORCE, BY AGE GROUP**

	1970				2000 (projections of exercise III)			
	10-19	20-39	40-64	65 +	10-19	20-39	40-64	65 +
<b>Total labour force</b>								
Argentina	13.7	47.7	34.7	3.9	9.3	48.0	38.9	3.8
Brazil	19.8	50.5	27.1	2.6	13.7	53.3	30.6	2.4
El Salvador	23.1	47.8	24.9	4.3	17.5	53.9	25.8	2.8
Venezuela	17.5	50.4	28.6	3.4	12.5	55.7	29.3	2.5
<b>Rural labour force</b>								
Argentina, North	18.3	38.3	36.4	7.0	16.0	39.7	33.6	10.6
Argentina, South	12.9	35.2	44.0	7.9	11.6	38.1	36.2	14.1
Brazil, less-developed	23.2	45.8	27.2	3.8	27.1	42.2	23.8	6.9
Brazil, developed	24.0	46.9	26.2	2.9	21.1	45.9	28.2	4.8
El Salvador	27.2	44.7	23.8	4.3	25.9	44.4	24.4	5.3
Venezuela	22.9	41.3	30.1	5.7	20.0	45.9	27.5	6.6
<b>Urban labour force</b>								
Argentina, North	16.7	51.9	28.5	2.9	10.5	50.7	36.4	2.4
Argentina, South	12.4	50.0	34.5	3.1	8.0	48.8	40.2	2.8
Brazil, less-developed	17.5	51.8	28.3	2.4	13.3	55.3	29.7	1.7
Brazil, developed	15.3	55.6	27.7	1.4	9.2	55.9	33.5	1.5
El Salvador	17.1	52.2	26.5	4.2	13.8	58.2	26.4	1.6
Venezuela	15.8	53.4	28.2	2.6	11.3	57.3	29.6	1.8
<b>Male urban labour force</b>								
Argentina, South	10.6	49.0	37.0	3.4	7.6	48.4	41.1	2.9
Brazil, developed	11.4	56.7	30.3	1.6	8.5	56.6	33.4	1.5
El Salvador	15.8	51.5	28.0	4.7	13.2	57.7	27.3	1.8
Venezuela	14.5	52.9	29.8	2.9	10.3	56.9	30.7	2.1
<b>Female urban labour force</b>								
Argentina, South	18.0	53.1	26.7	2.2	9.3	49.7	38.3	2.7
Brazil, developed	25.2	53.1	20.8	0.9	10.4	54.4	33.7	1.5
El Salvador	20.4	54.0	22.7	2.9	14.8	59.1	24.8	1.3
Venezuela	20.1	55.3	22.7	1.8	13.2	58.1	27.4	1.3

from the other countries in this respect than was the case in 1970; the proportion of the labour force accounted for by teenagers and young adults is much lower in Argentina, while the proportion of older, more experienced, workers is much higher than in the other countries. The basic explanation is again the earlier beginning of the population transition. It will not be until the next century that a similar evolution can lead to a corresponding maturing of the labour force in the other countries.



## On the conception of the centre-periphery system

*Octavio Rodríguez \**

During the nearly thirty years of its existence CEPAL has been devoting continuous effort to the interpretation of Latin American development. The principal object of the present article is to show that this work has been based on a set of fundamental ideas, which, formulated in the earliest CEPAL documents, later branched out in various theories and policy proposals bearing on such questions as international economic relations, industrialization, structural obstacles, inflation, etc. In addition, after refuting some of the criticisms levelled at CEPAL thinking from the standpoint of orthodoxy, the author ends by making the controversial assertion that despite the effort expended, CEPAL has not yet succeeded in producing a complete interpretation of the problems relating to employment, capital accumulation and social relations.

The Director of the Review and his collaborators hope that further studies will make it possible to remedy these deficiencies and arrive at a general theory of development in the centre-periphery system: a theory which cannot, of course, be purely economic, given the variety and complexity of the factors involved.

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## Introduction<sup>⊕</sup>

It frequently happens that interpretations of underdevelopment originating in the great industrial centres see it in contrast with an ideal standard of reference, which is often left implicit: the long-term economic development pattern embodied *grosso modo* in the various growth models of neoclassical and post-keynesian cut. By basing their analysis of underdevelopment on these conceptual foundations, such interpretations are led to explain it in terms of the factor or group of factors which retard or hinder growth; and therefore to regard it as an anomaly, in face of the image of normality tacitly deduced from the advanced societies, on the grounds of their steady and by now secular expansion of productivity and income.

In contrast, the Latin American interpretations of underdevelopment which form the so-called 'structuralist current of thought' do not envisage this phenomenon as a mere absence of growth, but as a specific process, as the mode of development peculiar to certain economies. To put it more exactly, this approach contemplates the existence of a single economic system, whose bipolar evolution generates at one and the same time development in the centres and underdevelopment in the periphery; and conceives of the latter as deriving from a process of structural change in the peripheral economies, which occurs within the framework of their relations with the central economies, and inherent in which is the inequality between the two types

<sup>⊕</sup>The author wishes to thank Aníbal Pinto, Luiz Claudio Marinho, Adolfo Gurrieri and Gregorio Weinberg, whose observations and comments enabled him to introduce significant improvements in the present study. This, of course, in no way commits them to the views maintained in it.

of economy, as regards the degree of penetration and diffusion of technical progress, and the levels of labour productivity and average real income.

Most of the studies that adopt this approach were published by the Economic Commission for Latin America (CEPAL). Focusing attention on the official CEPAL documents—whether or not they bear the signature of their respective author—, it can be seen that their main contributions to economic theory appear in four major areas: the theory of the deterioration of the terms of trade; interpretation of the industrialization process; analysis of the structural obstacles to development; and inflation theory. Along with these, others were gradually made in the field of economic policy, ranging from those of broader scope, such as general criteria for development policy or international co-operation, to the more specific, such as tariff protection criteria. What is referred to here as CEPAL thinking embraces the whole body of these contributions to the interpretation of the development and operation of the Latin American economies, and to the formulation of development policy and economic policy in the region.

CEPAL thinking and the structuralist current of thought—to which latter independent authors with a similar orientation also subscribe— thus differ perceptibly from the interpretations of underdevelopment directly deriving from conventional economics. As at many other turning-points of economic thought, here too it can be noted that the work of theory-building was preceded by the presentation of a set of ideas which are more or less consistent with one another, and which constitute a new and systematic vision of the reality that has to be grasped.

To this set of general ideas on underdevelopment the term 'conception of the centre-periphery system' is applied. To present them in systematic form is the main purpose of these notes (section I), while at the same time it is shown that they are contained in certain key documents, published by CEPAL in its earliest days; and that although they are propounded at the *pre-analytical* level, they have formed from the very outset a relatively coherent whole.<sup>1</sup>

This presentation is followed by a brief description of the other components of CEPAL's thinking (section II), with the limited aim of showing that they are largely developments of various aspects of the original conception, and that accordingly, while they do not form a completely coherent whole, their degree of unity is much greater than is usually recognized.

<sup>1</sup>These documents are: *The economic development of Latin America and its principal problems* (hereinafter referred to as *Principal problems*) and the *Economic Survey of Latin America, 1949* (hereinafter referred to as *Survey*), the first mimeographed texts of which date from the second half of 1949 and the first half of 1950, respectively. To facilitate consultation of these documents, the quotations refer to the following editions: Raúl Prebisch, "The economic development of Latin America and its principal problems", *Economic Bulletin for Latin America*, Vol. VII, No 1, United Nations publication, Sales No: 62.II.G.1 and 62.II.G.4, February 1962; CEPAL, *Economic Survey of Latin America, 1949* (E/CN.12/164/Rev.1), New York, United Nations publication, Sales No: 51.II.G.1, January 1951. (For a re-issue of the relevant part of the *Survey* in Spanish only, see Raúl Prebisch, *Interpretación del proceso de desarrollo latinoamericano en 1949*, Series commemorating the XXV anniversary of CEPAL, Santiago, Chile, 1973.) Although the conception of the centre-periphery system is fundamentally contained in these studies, the first 10 documents listed in section B of the bibliography are particularly illustrative of the emphasis placed on several of their essential ideas.

A review of the most important critiques appearing in the British and American literature of economics (section III) helps to clarify and define the basic features of the initial conception and of CEPAL's thinking itself; and in particular, it reveals that this latter is not the rough and simple ideological construct which, even today, some economists brought up in the orthodox tradition allege it to be.

Lastly, an attempt is made to show, by way of a first approximation, that the concept of the centre-periphery system and the analytical instruments most

directly based on it constitute the outline of a theory of the long-term economic development of the so-called peripheral economies –or a theory of underdevelopment, whichever is preferred–, whose chief limitation, setting aside a few inconsistencies, is the very nature of the approach adopted: its structuralist character (section IV).

Bibliographical references are included, relating to the background of the centre-periphery conception, to CEPAL thinking, to the critiques published in the centres and to the controversy regarding the structural roots of inflation.

## I.

### The conception of the centre-periphery system

#### 1. *Formation and structural characteristics*

From the standpoint of this conception, economic development finds expression in an increase in material well-being, normally reflected in a rise in real per capita income, and conditioned by the improvement of average labour productivity. This last is regarded as dependent upon the adoption of indirect –or, as they are sometimes called, 'capitalistic'– methods of production, which entail the availability of more capital per worker employed. In turn, the higher level of capital density is gradually attained as accumulation proceeds and as technical progress gives it impetus and ensures its continuity.<sup>2</sup>

Thus, considered at the highest level of abstraction, the ideas expressed on

economic development coincide with those contained in broad outline in the neo-classical and Keynesian growth theories, which regard it as a process of capital accumulation –closely linked to technological progress–, whereby capital density is gradually raised, labour productivity increased and the average level of living improved.

Setting aside this common feature, however, the conception under discussion differs markedly from the current theories of long-term growth, inasmuch as it does not seek to interpret the process of accumulation and technical progress in a typical capitalist economy, considered in isolation, but to shed light on the characteristics assumed by that process when capitalist production techniques are propagated in the scenario of a world economic system composed of *centres* and *periphery*.

Implicit in this pair of concepts is the idea that development has been unequal

<sup>2</sup> *Survey*, pp. 3 and 6-7.

from the start: the economies that were the first to be penetrated by capitalist production techniques are considered *centres*; the *periphery*, on the other hand, is constituted by those economies whose production has lagged behind, technologically and organizationally, from the outset. But the concepts of centre and periphery involve more than this simple idea of initial differentiation; it is maintained that they gradually took shape as and to the extent that in the backward areas "technical progress... usually only penetrated where it was needed to produce foodstuffs and raw materials at low cost for delivery to the great industrial centres".<sup>3</sup>

In other words, centres and periphery are regarded as the historical outcome of the way in which technical progress was propagated in the world economy. In the centres, the indirect methods of production generated by technical progress spread, in a relatively short space of time, throughout the whole of the production system. The periphery got off to a late start, and during the period known as that of 'outward-directed development', the new techniques were introduced only in the primary-exporter sectors, and in some economic activities directly connected with exports which came into existence alongside sectors that were backward in respect of the penetration of the new techniques and the level of labour productivity.<sup>4</sup>

<sup>3</sup> *Survey*, p. 3.

<sup>4</sup> The so-called 'outward-directed development' has not been an object of exact analysis in the CEPAL documents, but detailed analyses have been made in studies by several of the writers forming the structuralist school of thought. The CEPAL publications contain only brief references to this model embodying the general ideas indicated in these remarks. For one

As the impulse to its formation was given by the striking expansion of the centres during the phase of outward-directed development, the structure of production in the periphery acquired two essential features. One of these is its specialized or unilaterally developed character, since a substantial proportion of productive resources was applied to successive enlargements of the primary-exporter sector, while demand for goods and services, as it increased and became more diversified, was largely met with imports. This structure is, furthermore, heterogeneous or partly backward, in the sense that sectors where productivity reaches as high levels as anywhere in the world—in particular the export sector—exist within it alongside activities using outdated technologies, where the level of labour productivity is far below that attained in similar activities in the centres.<sup>5</sup> In contrast with the periphery's specialized and heterogeneous structure of production, that of the centres is *diversified and homogeneous*.

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of these allusions, see Raúl Prebisch, *Theoretical and practical problems of economic growth* (E/CN.12/221), Santiago, Chile, mimeographed text, May 1951, pp. 6-7. (Published in Spanish only: *Problemas teóricos y prácticos del crecimiento económico*, United Nations publication, Sales No: 52.II.G.1, and also in Series commemorating the XXV Anniversary of CEPAL, Santiago, Chile, 1973.)

<sup>5</sup> The structure of production should be understood to comprise the sectors producing goods, while the economic structure also includes the physical infrastructure and the services sectors (including services provided by the central government). In the context of the ideas discussed here, the characteristics of the structure of production condition those of the economic structure, for which reason reference will be made only to the former, except where allusion to the latter is indispensable. The expression 'structural dualism' and other similar terms have been avoided in describing the

Similarly, on this structural differentiation is based the distinction between functions proper to the traditional patterns of the international division of labour: in the world economic system, the function of the periphery is to produce and export raw materials and foodstuffs, while that of the centres is to produce and export industrial goods for the system as a whole.<sup>6</sup>

## 2. *Terms of trade and fruits of technical progress*

As will later be seen, in addition to the static connotation implicit in the foregoing description of the characteristics of their structures, the concepts of centre and periphery have also a dynamic connotation: they are intended to provide an explanation of the development process

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technological lag, in view of the connotation of social backwardness which generally accompanies the concept of dualism in the literature of under-development. It was thought preferable to resort to the term 'heterogeneity of the structure of production', which tacitly incorporates the concept of 'structural heterogeneity'. This concept, although developed at a much later date (on the basis of an article by Aníbal Pinto, "Concentración del progreso técnico y de sus frutos en el desarrollo latinoamericano", *Trimestre Económico*, No 125, January-March 1965), has the advantage of clearly referring to the relatively low levels of labour productivity, observable in the most widely varying sectors of the peripheral economies. Hence in the backward sectors, defined in terms of this criterion, the patterns of organization of production may be either capitalist or pre-capitalist. On the concept of dualism, see Yoichi Itagaki, "A review of the concept of the 'dual economy'", *The Developing Economies*, Vol. VI, No 2, June 1968. An article by Aníbal Pinto, "Naturaleza e implicaciones de la 'heterogeneidad estructural' de la América Latina", *Trimestre Económico*, No 145, January-March 1970, briefly contrasts the two concepts.

<sup>6</sup> See *Survey*, p. 4; *Principal problems*, p. 1.

that starts from the basic hypothesis of its inherent inequality, which implies that during the long-term evolution of the world economic system the gap is widened between these two poles, between the developed character of the centres and the underdevelopment of the periphery.

The assumptions relating to the separate evolution of average levels of productivity and income constitute the most direct expression of this dynamic content. Technical progress is held to be more rapid in the centres than in the periphery; it is likewise postulated that the increases in labour productivity—consequent upon the incorporation of technical progress into the production process—are also more intensive in industry in the centre than in the primary-exporter sectors of the periphery, and that this in its turn is reflected in the unequal rates of increase of average productivity in the two types of economy; and it is further posited that the growth rates of average real income are unequal too—faster in the central countries than in the less developed economies.<sup>7</sup> From a conceptual standpoint, these two kinds of inequality—i.e., the dynamic disparity between levels of labour productivity and the increasing difference between average income levels—are interlinked by the postulates relating to the deterioration of the terms of trade. This deterioration is considered to be a demonstrable fact, despite the existence of statistical problems which make its exact measurement a difficult matter.<sup>8</sup> It is likewise maintained that the phenomenon is the manifestation of a long-term trend inherent in the trading

<sup>7</sup> *Survey*, p. 74; *Principal problems*, pp. 1 and 4.

<sup>8</sup> *Principal problems*, pp. 4 and 5.

of primary exports from the periphery for exports of manufactures from the centres.

It is worth while to begin by examining the significance ascribed to this trend, before separately describing its causes. By definition, the deterioration of the terms of trade implies that the purchasing power of one unit of primary exports in respect of manufactures diminishes in the course of time. But more important and more outstanding than this variation in the terms of commodity trade are its implications as regards the real income generated in the production of the goods traded.

A clearer idea of this aspect of the deterioration phenomenon can be given by means of the following equation:

$$y = \frac{L_p \cdot P_p}{L_i \cdot P_i}$$

where  $L_p$  stands for the average physical productivity of labour in the production of a primary good;  $P_p$  for the price of the said good;  $L_i$  for productivity in the production of an industrial good; and  $P_i$  for the corresponding price. Obviously, 'y' represents the relation between real incomes (per person employed) in the two activities, measured in terms of industrial goods.

Given the assumption that productivity increases more in the industrial than in the primary sector, the fall in the terms of trade necessarily implies that the relation between income levels will follow a downward trend; and even that average real incomes will become more sharply differentiated through time than levels of productivity. If the same reasoning is applied to centre-periphery relations, it becomes obvious that in view of the hypothesis on the disparate evolution of productivities, the trend

towards deterioration implies that there will be a growing difference between average real incomes, and, in particular, that in the peripheral countries average income will be increasing more slowly than labour productivity.

Such is the general idea contained in the documents in which the conception of the centre-periphery system first takes shape.<sup>9</sup> It is argued in them that the increases in productivity deriving from the incorporation of technical progress were not reflected in proportional reductions in monetary prices, but that the latter rose instead of falling, and that the increases were greater for the industrial production of the centre than for the primary production of the periphery. Since productivity also rises more in the centre, the deterioration of the terms of trade implies a disparity in the evolution of income per unit of labour by which the centre is favoured.

This, it must be repeated, is the significance of deterioration which is really of interest from the conceptual standpoint. Even if the terms of trade do not deteriorate, the mere inequality of the rates of increase of labour productivity implies a difference in average income levels; if in addition deterioration occurs, the gap between average incomes will grow wider still. To use the CEPAL terminology, deterioration of the terms of trade implies that the fruits of technical progress are concentrated in the industrial centres.

A second significance is attached to deterioration, which is of interest more from the angle of its possible quantitative importance for development. As can be inferred from the foregoing remarks, a decline in the terms of trade implies

<sup>9</sup> *Survey*, pp. 47-48; *Principal problems*, p. 5.

that in the peripheral economies average income increases less than labour productivity, or, in other words, that these economies 'lose' part of the fruits of their own technical progress, 'transferring' them in part to the great centres. It is alleged that this 'transfer' may be of little importance for the central economies, but will normally have a perceptible negative effect on the development of those forming the periphery of the world economic system.

### 3. *Causes of the deterioration of the terms of trade*

According to the more general ideas set forth above, economic development is, in the last analysis, a process of capital accumulation and technical progress, the result of which is a steady rise in output per worker. But in relation to the attainment of higher levels of productivity and income, the transformation of the sectoral structure of production and employment is not a haphazard process. As these levels rise, demand expands and becomes diversified, while simultaneously its composition alters: demand for industrial goods and services grows more rapidly than demand for primary commodities. At the same time, higher productivity enables these increasing volumes of demand to be met, by means of a change in the sectoral composition of production, which in turn involves a change in the sectoral composition of employment. The growth rate of both production and employment is faster in the secondary and tertiary sectors than in primary activities. Technical progress in this last sector at once permits and encourages a greater increase in employment in the other more dynamic sectors.<sup>10</sup>

<sup>10</sup> *Survey*, pp. 3 and 4.

Nor is the sectoral composition of production and employment a haphazard affair in the development of the world economy. It is understandable that, as the growth of industry in the centre is relatively slow, and furthermore the international mobility of the labour force is very slight, a manpower surplus tends to be generated in primary production in the peripheral countries; apart from the fact that this surplus is produced continuously, since it has its origin in the dynamic forces of development. As employment distortions are gradually corrected within the peripheral economy, by a switch-over of manpower either from backward sectors to the export sector, or from this latter to other incipient modern sectors, including industries, technical innovations appear which once again affect employment requirements. Broadly speaking, these requirements tend to increase more slowly than the huge supply of labour brought into being by technical progress itself, inasmuch as it displaces manpower from the more backward sectors, and has, moreover, repercussions on the growth rate of the population.

The continuous generation of this manpower surplus is the basic cause of the deterioration of the terms of trade. For, as the theory under discussion maintains, this surplus exerts constant pressure on the wages paid in primary production for export, and through them on the prices of the commodities produced.<sup>11</sup>

Still in accordance with the same argument, the tendency to deterioration manifests itself through the cyclical fluctuations characteristic of capitalism. During the boom periods primary prices rise more than those of industrial pro-

<sup>11</sup> *Survey*, pp. 46-47.

ducts, but they fall more during the phases of recession: so much more, indeed, that the prices of the periphery's export products generally lose more during the downswings than they gain during the upswings, whence the long-term trend towards deterioration of the terms of trade.<sup>12</sup>

These price fluctuations and the trend deriving from them are influenced by the fact that in the centres—owing to the relatively greater shortage of manpower and to better trade union organization—the labour force is in a stronger position to obtain wage increases or prevent reductions. They are similarly affected by the advantages that entrepreneurs in the industrial countries enjoy with regard to safeguarding the level of their profits, as compared with entrepreneurs in the periphery, not only because these latter, generally speaking, operate on more atomistic lines, but mainly because the commodities they produce represent the lowest links in the production chain. Demand for the periphery's primary commodities derives from and is dependent upon demand for final goods in the central economies, so that entrepreneurs in economies of this type are in a position to exert pressure, during the downswings, on those who precede them in the production chain, until the decline in monetary prices of the primary commodities they purchase—and at the back of that, the fall in profits and/or wages in the periphery—enables them to restore satisfactory profit conditions.<sup>13</sup>

<sup>12</sup> *Survey*, p. 58; and *Principal problems*, p. 6.

<sup>13</sup> *Survey*, pp. 59-70; *Principal problems*, p. 6. It should be noted that this way of looking at primary production problems from the standpoint of demand is the approach adopted in the two documents referred to. Only in later works is detailed allusion made to the lack of

#### 4. *The dynamics of the system: unequal development*

In current literature on the development of Latin America it is often maintained that the concepts of centre and periphery differ from another pair of parallel concepts: development and underdevelopment. It is asserted that the former refer to the structure of world trade, characterized by the exchange of manufactures for raw materials, whereas the latter relate to the differences between the economic structures of advanced and backward countries. This appraisal of the concepts of centre and periphery is unilateral, since, as has been shown, there is a differentiation between the functions of the two groups of countries in the context of the world economy, which is primarily manifested in the structure of international trade; but underlying this differentiation of functions there is a basic diversity of structures. In the centres the economic structure is diversified and homogeneous, whereas in the periphery it is specialized and heterogeneous. The concepts of centre and periphery therefore have a static content closely resembling that of the current concepts of development and underdevelopment, since they indicate the inequality between ad-

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dynamism of demand for food, under Engel's Law; and to the slow growth of demand for raw materials, attributed to the partial or total replacement of these by synthetic products, and/or to their more efficient utilization, both being the result of technical progress itself. (See, for example, Raúl Prebisch, *Theoretical and practical problems of economic growth*, *op. cit.*, pp. 28-32.) Not until a still later date are these arguments coherently incorporated in an interpretation of the trend towards deterioration of the terms of trade, to which reference is made in section II.

vanced and backward countries in respect of their structure of production.

But the concepts in question also have a clearly dynamic connotation. Reference has already been made to one of its aspects: the difference between the rates of increase of average labour productivity found at the two poles of the world economic system. Plainly, it is this differentiation that underlies the inequality between the structures of production, since the periphery is prevented by the relative backwardness of its own structure from generating technical progress and incorporating it into the production process to the same extent as is possible in the centres. Moreover, as has just been pointed out, this structural inequality is what accounts, in the last analysis, for the deterioration of the terms of trade, and this deterioration, coupled with the difference in productivities, implies that there is also a difference between average incomes. Obviously, this disparity does not allow the periphery to attain such high levels of saving and rates of accumulation as are reached in the centres, and this in its turn limits the possibilities of eliminating or reducing the structural lag which underlies the differentiation between incomes and productivities.

This is the kind of reasoning whereby it is sought to show that there is a tendency to inequality between the two poles of the centre-periphery system which is inherent in its own dynamics: it is argued, in short, that on the one hand structural inequality and on the other hand the differentiation between average productivities and incomes interact and reinforce one another.<sup>14</sup>

It is of interest to point out that this twofold inequality is regarded as charac-

teristic of the phase of outward-directed development, although it is fully acknowledged that this type of development was for many years a powerful engine of progress and economic growth. Similarly, it should be made clear that such trends are considered to be still inherent in the dynamics of the system, even during the phase in which industrialization becomes the pivot of the development process, and despite the significant structural changes which it brings in its train.

##### 5. *Inward-directed development*

In the conception of the centre-periphery system, industrialization is regarded as a real fact and a spontaneous phenomenon,<sup>15</sup> and as indicating the existence of a change in the model or pattern of peripheral growth: from the outward-directed development, based on the expansion of exports, to inward-directed development, based on the expansion of industrial production.<sup>16</sup> Within the conception under review, this phenomenon is seen as closely linked to changes that have taken place in the world economy, and that are particularly meaningful and important for the periphery.

Outstanding, in the first place, are events of a circumstantial type, those usually cited being the two world wars and the great economic depression which occurred between them.<sup>17</sup> The impact

<sup>15</sup> As will be seen later, the concept of spontaneous or non-deliberate industrialization by no means precludes the possibility that the application of policy measures which restrict imports —although originally adopted for other purposes— may have helped to promote import-substituting domestic production.

<sup>16</sup> *Principal problems*, p. 8.

<sup>17</sup> *Survey*, pp. 3 and 4.

<sup>14</sup> *Survey*, p. 57.

attributed to these events is a matter of common knowledge. The wars that began in 1914 and 1939 obviously set up a barrier to imports, while at the same time they led to a marked dynamization of demand for exports and, consequently, of domestic demand in the periphery, all of which circumstances became driving forces behind Latin American industrial activity, whereby the difficulties of importing manufactures from the warring centres were gradually palliated. The depression of the 1930s caused a drastic reduction in the price and volume of primary exports, which, combined with earlier indebtedness, resulted in an acute shortage of foreign exchange. It therefore became indispensable to restrict imports by means of exchange and tariff policy or simply by direct prohibition. Furthermore, measures aimed at maintaining income and employment levels had a favourable effect on demand for goods of which the external supply was limited. Thus propitious conditions were created for domestic production of manufactures to take the place of similar imported goods.

Besides constituting a response to these motive forces of a conjunctural type, the industrialization of Latin America was prompted by structural changes which took place in the world economy during the same years.<sup>18</sup> Specifically, reference is intended to the United States' superseding of the United Kingdom as the main cyclical centre, a process which had reached its culminating point by the 1920s. The importance of this change for the development of the periphery is linked to the relatively closed character of the United States

economy, and to the downward trend of its import coefficient.<sup>19</sup>

The British cyclical centre, with an economy essentially complementary to that of the vast periphery, transmitted cyclical fluctuations through the movements of the balance of payments. During the downswings, the centre's imports underwent a severer and more rapid contraction than its exports, with the consequent trade deficit and loss of reserves on the part of the periphery. But during the upswings, the centre tended to transfer its expansion quickly through the powerful dynamism of its imports, so that in a short time the periphery's former trade deficit was covered. Thus, from the latter's point of view, the external deficits originating in the phases of contraction were offset by the surpluses created in the periods of expansion, so that the long-term trend was one of equilibrium in the trade balance.

As from the 1920s the world economy has worked in a different way, especially since the great depression of the 1930s, when the influence of the United States economy became decisive. During the cyclical contractions the same tendency to a trade balance surplus and to absorption of bullion recurs. But in the boom periods, owing to the low import coefficient, the transfer of economic expansion to the periphery through imports of primary commodities is relatively slow, and the trade deficit tends to persist for a longer spell of time.

Moreover, during this interval new reductions of the centre's import coef-

<sup>18</sup> *Survey*, p. 35; *Principal problems*, pp. 7-8.

<sup>19</sup> The brief account which follows tacitly assumes a two-country model, using the centre (represented alternatively by the United Kingdom or the United States), and the periphery (formed by the remaining economies).

ficient occur, generating a tendency to a chronic trade balance deficit in the periphery, and to continuing absorption of gold by the new cyclical centre.<sup>20</sup>

This tendency has acted as a spur to the spontaneous industrialization of the periphery, since the external deficit, continually recurring, has repeatedly led to the adoption of measures to restrict imports, a policy which in turn has given rise at every step to incentives to replace them by domestic production of manufactures.

Thus, through the motive power of the external deficit, the more closed character of the economy of the most important new cyclical centre has been reflected in a peripheral development which is also more closed, and follows the patterns indiscriminately described as industrialization, import substitution or inward-directed development.<sup>21</sup>

This spontaneous industrialization impulse in the periphery can also be explained in the light of arguments at a higher level of abstraction. As was pointed out above, it is assumed that in any development process the intersectoral distribution of the active population is not a haphazard process, since the proportion working in primary production tends to shrink, with the corresponding increase in the percentage employed in industry.

General application of these ideas to the world economy as a whole raises the question of whether in a system composed of a centre and a periphery, with the structural characteristics previously outlined, the growth of industry and of industrial employment in the centre can be compatible with development of the

periphery on the basis of its traditional specialization as a primary exporter.<sup>22</sup> The reply is in the negative. If these activities were supposed to absorb the manpower supply generated in the periphery by population growth and technical progress, their volumes of production would have to be such as could not be sold on the market without serious detriment to the terms of trade. Accordingly, once the world economy has reached a certain level of development, in conditions of relative international immobility of the labour force, industrialization is the only way open to peripheral development.<sup>23</sup>

It should be noted that this is not an argument of economic policy, but a theoretical line of reasoning which is put forward *contrario sensu*, as a way of expressing the idea that when the world economic system attains a certain degree of development, or, in other words, when its two poles reach given average levels of productivity and income, the free play of economic forces spontaneously promotes the expansion of peripheral industry. Industrialization then becomes the principal and obligatory growth pattern of the economies that make up the peripheral pole of the system.

#### 6. *Contradictions in peripheral industrialization*

In relation to the conception studied here, economic problems present similar features in the various peripheral countries, and particularly in those of Latin America, during this new phase, which is regarded as "one more stage in the

<sup>20</sup> *Principal problems*, pp. 8-10.

<sup>21</sup> *Principal problems*, pp. 10-12.

<sup>22</sup> *Survey*, p. 12.

<sup>23</sup> *Survey*, pp. 48-49.

world-wide spread of . . . productive technique, or, if preferred, in the organic development of the world economy".<sup>24</sup>

Two of these common problems appear in the sphere of international economic relationships: the trends towards external disequilibrium and towards the deterioration of the terms of trade. As already pointed out, the former is related to the switch-over of the main cyclical centre, and to the resultant changes in the operation of the world economic system. From another point of view, this trend is taken to be inherent in the periphery's industrialization process, owing to the maladjustment between the high rate of increase of demand for imports that it induces and the relatively low growth rate of the centre's demand for primary export commodities.<sup>25</sup> Similarly, it is maintained that the deterioration trend is continuing during the new phase of peripheral development, because of the persistence of the employment problems underlying this phenomenon.

These problems, it is considered, are still characteristic of the periphery for reasons similar to those of a more general nature indicated above. The peripheral economies began their industrialization process with a superabundance of manpower—characteristic of their specialization and structural heterogeneity—while at the same time they were compelled to use capital-intensive techniques, worked out during the slow and gradual economic development of the centres, and ill-adapted to the relative availability of resources in the periphery. It is not surprising, therefore, that

demand for labour lags behind the supply generated by industrialization itself, inasmuch as the process displaces manpower in the technically backward sectors of production—i.e., artisan industry and agriculture—and affects the demographic variables, speeding up population growth. To this technological maladjustment is added the fact that the indirect effects of investment on employment, due to additional demand for labour in the capital goods sector, are not produced in the periphery, but in the great industrial centres. Thus it is understandable that during the peripheral industrialization process there is a tendency for unemployment to persist "unless it can be countered by a deliberate policy of economic development".<sup>26</sup>

A third group of common problems is also linked to the unsuitability of the techniques which were gradually developed in the centre, alongside the steady increase in its average income. When the periphery is passing through the phase of development via industrialization, it becomes essential to adopt those same large-scale and highly capital-intensive techniques, despite a lag in income levels and capacity to save which is reflected in capital utilization and accumulation problems. In the first place, the techniques are applied in large-scale production units, while owing to the low income levels the market is of insufficient size, with the consequent under-utilization of capital. At the same time, the inadequacy of the capacity to save makes it impossible to leap the barrier of backwardness, that is, to raise productivity levels substantially and rapidly in a large number of sectors and activities; and

<sup>24</sup> *Survey, op. cit.*, p. 3.

<sup>25</sup> *Survey, op. cit.*, p. 9.

<sup>26</sup> *Survey, op. cit.*, pp. 65-66.

thus the efficiency of the system, and the capacity to save itself, continue to be handicapped.<sup>27</sup> Outstanding among the sectoral 'bottlenecks' is the unsuitability of the infrastructure, inherited from the period of outward-directed development and designed to meet the needs of primary-exporter specialization.

Accordingly, the main difficulties confronting the industrialization process are related to the inappropriateness of the technology in use; but they are also felt to be associated with the structure of land ownership and tenure in peripheral agriculture, where latifundia and minifundia exist side by side, and unsatisfactory modes of land tenure proliferate. These are conditions which tend to generate unemployment and to limit agricultural supply.

Over-concentration of land ownership is an obstacle to the full utilization of this resource, because of the large amounts of capital required to exploit it; but at the same time, the maintenance of unproductive land proves viable for owners with large incomes, and even desirable, as an effective defence against inflation and also for reasons of social prestige. Since from the private point of view the cost of labour is an incentive to replace it by capital, mechanization is becoming usual on the latifundia. In turn, the incapacity of the minifundia to accumulate capital and raise standards of productivity also makes it difficult to expand supply and retain labour. Lastly, the system of tenant farming and other unsatisfactory land tenure relations make for decisions in favour of investments whose value does not augment that of the property, such as the purchase of machinery and equipment, which in addition are labour-saving.

<sup>27</sup> *Survey*, pp. 62-64.

Thus, it is these structural conditions peculiar to agriculture that are held to conduce to the adoption of labour-saving techniques at the expense of others that make proportionally greater use of manpower and do more to increase the productivity of the land: a choice which, therefore, generates problems of employment and rigidity of production.<sup>28</sup>

To sum up, during the industrialization process the deterioration of the terms of trade persists; balance of payments and labour-absorption problems make their appearance; intersectoral maladjustments in production occur (infrastructural deficiencies, agricultural supply shortages, etc.); and difficulties continue to arise in respect of capital utilization and accumulation. But these common features appear in varying degrees of intensity in the different countries, so that in each of them the process acquires different connotations. For instance, the tendency to an external deficit may be perceptibly less than the average, and may even be completely offset in special cases, where demand for a country's staple export product is exceptionally dynamic.<sup>29</sup> Or again, the unemployment situation may be more or less serious, depending upon the specific historical conditions of previous development, as is shown by a comparison between the characteristics of Mexican and Argentinian agriculture;<sup>30</sup> moreover, the problems posed by capital utilization and accumulation will differ according to the levels of income attained during the phase of outward-directed development,<sup>31</sup> and so on.

<sup>28</sup> Raúl Prebisch, *Theoretical and practical problems of economic growth*, *op. cit.*, pp. 60-65.

<sup>29</sup> *Survey*, *op. cit.*, pp. 8-9.

<sup>30</sup> *Survey*, *op. cit.*, pp. 5-6.

<sup>31</sup> *Survey*, *op. cit.*, pp. 7-8.

It is easy to see that the general trends and contradictions indicated in the foregoing paragraph are really reflections of the persistence of the structural lag characteristic of the periphery; or rather, they result from the way in which the structure of production is changing during the phases of inward-directed development, and yet the differences between it and the corresponding structure in the centre are not being smoothed out, but are merely reproduced at new levels.

Industrialization starts from the conditions of specialization and heterogeneity established during the period of outward-directed development. Obviously, its evolution involves some diversification of production and a fairly considerable increase in average labour productivity. But diversification does not go far enough to remedy the lack of complementarity between the sectors of production, or alter the primary-exporter status of the periphery; and productivity too is unable to make up its leeway, not only because of the difficulty of reabsorbing the labour employed in sectors where productivity is very low, but also because the absorption itself is effected in productivity conditions different from those prevailing in the centre, even in several branches of manufacturing industry.

#### 7. *Development policy and planning*

The inference to be drawn from the preceding remarks is that in all the special cases and circumstances mentioned above, notwithstanding their diversity, common problems present themselves — though with varying degrees of

seriousness— which hamper the industrialization process, tending to hold it back or to give it a slower tempo than would be potentially attainable. In other words, it is recognized that the free play of market forces leads to the stubborn recurrence of balance-of-payments problems and of those relating to capital accumulation and to under-utilization of capital and labour, since they are inherent in spontaneous industrialization and ultimately derive from the conditions in which the periphery's structure of production changes in the course of that process.

Thus according to the conception of the centre-periphery system, if industrialization is to serve as a means of substantially raising levels of productivity and optimizing the allocation of resources, it must be oriented in the light of a carefully-considered development policy. Moreover, in view of the structural nature of the above-mentioned problems, this policy will have to be ordered and rationalized by recourse to programming.

If this recommendation is viewed as a whole and as a conclusion drawn from the ideas previously described, it will be seen to possess a clearly-defined hue of its own. It is prompted neither by considerations relating to the anarchical character of capitalism and of its *modus operandi*, nor by reflections on the tendency of the capitalist system to generate circumstantial fluctuations in the level of economic activity; it stems from evaluation of the specific structural conditions of the periphery, which limit its capacity for growth, when this type of economy is left to the mercy of the spontaneous action of market forces.

## II.

### The components of CEPAL thinking

Several of the postulates just described were put forward –and some of them analytically formulated– in earlier documents than the studies already mentioned; but only in these latter did they take shape as a body of fairly coherent ideas which are called here the ‘conception of the centre-periphery system’.<sup>33</sup> This conception is not at first presented separately, as a conscious point of take-off for its analytical elaboration, but is implicit in the arguments relating to theory and economic policy that exist in the same documents in which it is contained. And although the various ideas constituting it are more precisely defined and better interlinked in later documents, it is no less true that the early formulation of this group of basic hypotheses is the key to the unity of CEPAL thinking.

<sup>33</sup> Although the early background of this conception is not examined, some bibliographical references to it are included. Consultation of these sources reveals that the ideas which Raúl Prebisch later succeeded in welding into the conception of the centre-periphery system were being gestated in some of his previous writings, closely related to his participation in the management of the Argentinian economy, during the great depression and the Second World War. A complete bibliography of his works can be found in L.E. Di Marco (ed.), *International Economics and Development*, New York, Academic Press, 1972. The extracts from the records of the Central Bank of the Republic of Argentina, published by that institution under the title *La creación del Banco Central y la experiencia monetaria argentina entre los años 1935-1943*, Buenos Aires, 1972, 2 vols., are particularly illustrative of the link

This unity is not perceptible at a first glance, nor, indeed, is it easy to grasp, largely owing to the pragmatic fashion in which the thinking in question was gradually built up on the basis of economic policy recommendations formulated in response to specific problems, and subsequently justified at the level of theory. In other words, the concern with practical action characteristic of the type of activity undertaken by CEPAL means that its studies betray a tendency to summarize *ad hoc* the most pertinent theoretical arguments on which given policy measures can be based, to the detriment of the strict exactitude of such arguments and measures. Nevertheless, when an attempt is made to distinguish between the contributions in the sphere of theory and those in the field of policy and to examine them in detail, it can be seen that these contributions attain a degree of unity much greater than is commonly recognized.

It is not the purpose of these remarks to make a meticulous examination of the components of CEPAL thinking.<sup>34</sup> The sole aim of the brief descrip-

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existing between the ideas in question and the economic circumstances of those years. A useful summary of the evolution of the economy in question will be found in J.G. Fodor and A.A. O’Connell, “La Argentina y la economía atlántica en la primera mitad del siglo XX”, *Desarrollo Económico*, Nº 49, April-June 1973.

<sup>34</sup> For a detailed discussion of its various long-term components, see Octavio Rodríguez, “Sobre el pensamiento de la CEPAL”, ILPES, mimeographed text, 1974.

tion which follows is to give an all-round idea of the thinking in question and an approximate impression of its unity, in order to facilitate the presentation, in sections III and IV, of the criticisms levelled at it. The table appended summarizes this description and may even take its place, thus enabling the reader to pass on directly to section III, particularly if he is acquainted with the basic studies prepared by CEPAL.<sup>35</sup>

### 1. *The sphere of economic theory*

The conception of the centre-periphery system is accompanied by the emergence of two preliminary formal versions of the theory of the deterioration of the terms of trade.<sup>36</sup> One of them makes use only of accounting instruments and/or definitional equations, and covers no more than a small fraction

<sup>35</sup>In the description referred to, bibliographical references are made to some of the documents in which the various sets of analytical instruments are developed. Section B of the bibliography represents a selection of the studies published by CEPAL during the 1950s and 1960s, with particular emphasis on those appearing up to 1964. In section D attention is drawn to those tackling the problem of inflation, including some by independent writers, and the critiques of the views maintained in this connexion. The writings of independent authors belonging to the structuralist 'current' or 'school' of thought on subjects other than inflation are outside the scope of these remarks. It is worth noting that many of them are marked by a much higher degree of academic rigour than the official CEPAL documents, and that in view of this characteristic they have made a very significant contribution to the development of the common approach.

<sup>36</sup>It can be seen in section I that this conception is formed by a body of general ideas and basic hypotheses, presented at the pre-analytical level. What is meant by the 'formal version' or 'formalization' is the analytical

of the conception under review, since its sole aim is to pinpoint the significance of deterioration (strictly speaking, the ideas described in section I, sub-section 2). The second version uses elements of macro-economic income theory and of the theory of cycles, and by their means attempts to show how the causes of deterioration operate through the fluctuations in the level of activity characteristic of the operation of the world economic system. This, which for brevity's sake might be called the 'cycles version' of deterioration theory, is of much broader scope in relation to the initial conception, since it incorporates the ideas bearing on the configuration of centres and periphery, and on the more general characteristics of the two types of economy (i.e., the ideas commented on in section I, sub-sections 1 to 3).<sup>37</sup>

Still following up CEPAL's publications, it can be seen that by the mid-1950s several partial analyses had been prepared, which together form what might be called an "interpretation of the industrialization process". These analyses relate to several of the characteristics and trends which, as is recognized, are inherent in the process in question. (i) The necessity and spontaneity of industrialization is discussed, use being made in this case too of elements from income and 'cycles'

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expression of these same general ideas in theoretical terms proper. When, on the other hand, allusion is made to 'analytical instruments' or to 'sets of analytical instruments', reference is intended to formalizations both in the sphere of economic theory and in the field of economic policy.

<sup>37</sup>*Principal problems*, pp. 4-6; *Survey*, chapter III.

<sup>38</sup>*Principal problems*, pp. 6-13; *Survey*, chapter II.

## COMPONENTS OF CEPAL THINKING

<i>1. Sphere of economic theory</i>		<i>2. Sphere of economic policy</i>			
		<i>Development policy</i>	<i>Policies respecting international economic relations</i>	<i>Agrarian policy</i>	<i>Social, labour and income policies</i>
Basic theoretical contributions	(a) Conception of the centre-periphery system (1949-1950)	(a) Deliberate guidance of industrialization process	(a) Protection of the domestic market	(a) Research and extension programmes	
	(b) Theory of the deterioration of the terms of trade ('accounting version') (1949-1950)	(b) Criteria for allocation of resources	(b) Latin American integration	(b) Taxation and/or land reform	
	(c) Theory of the deterioration of the terms of trade ('cycles version') (1949-1950)	(c) Development planning	(c) External financing		
	(d) Interpretation of the industrialization process (1949-1955)		(d) Technical assistance		
	(e) Theory of the deterioration of the terms of trade ('industrialization version') (1959)		(e) Countercyclical policy (compensatory for terms-of-trade fluctuations)		
Other theoretical contributions	(f) Analysis of structural obstacles to development (1956-1963)	(d) Reforms and incentives	(f) Countercyclical policy and/or policy compensatory for deterioration of the terms of trade	(c) Land reform	(a) Social policies
	(g) Inflation theory (1953-1964)	(e) Revision of planning principles and methods	(g) Exports of manufactures		(b) Active employment policy
					(c) Income redistribution

theories;<sup>38</sup> (ii) import substitution and the change in its composition is analysed, together with (iii) the tendency to external disequilibrium, and a structural theory of balance-of-payments stabilization is outlined;<sup>39</sup> (iv) an explanation is sought for the trend towards unemployment and intersectoral production disequilibria, recourse being had to instruments of production theory; (v) with similar analytical tools, agricultural supply and employment problems are dealt with.<sup>40</sup> These partial analyses are developments of the initial ideas, relating to economic events in the periphery during the phase of inward-directed development (section I, sub-sections 5 to 7).

In 1959 a third formal version of the theory of the deterioration of the terms of trade was published in English only; it is also little known because the analysis of deterioration is built up around economic policy arguments relating to the protection of the domestic market. This new version attempts to show that in conditions of balanced growth, or rather, in the absence of cycles, the spontaneous industrialization of the periphery brings with it a decline in the terms of trade and unequal increases in income. Instruments of neo-classical price theory are used in providing an explanation of the deterioration in which a joint role is played by the lower levels of productivity in peripheral industry, the relative abundance of manpower characteristic of this type of economy, the differences between wages in the periphery and in the centre, and the disparity between

income-elasticities of demand for imports in the two poles of the system. Inasmuch as the deterioration of the terms of trade is explained in connexion with spontaneous industrialization, the new theory constitutes a synthesis of those mentioned above, which takes into account not only deterioration but several of the characteristics of the industrialization process. This 'industrialization version' of deterioration theory therefore incorporates a wide range of the basic hypotheses to which reference has previously been made (in broad outline, those comprised in section I, sub-sections 1-3 and 5-7).<sup>41</sup>

By the beginning of the 1960s a new essay in interpretation was taking shape, whose most fully integrated version dates from 1963: an analysis of the structural obstacles to development.<sup>42</sup> The object of this analysis was to give some account of a series of phenomena which made their appearance during those years, and were regarded as characteristic of a new phase of peripheral development. Among these, attention was drawn to the aggravation of the tendency to balance-of-payments disequilibrium, which was reaching a point at which the external bottleneck threatened to stifle development; the increasing under-employment and unemployment of the active population; the highly regressive distribution of income and wealth; and the proliferation of vast groups excluded from participation in the economic and social process: all of

<sup>39</sup> Raúl Prebisch, *Theoretical and practical problems of economic growth*, *op. cit.*, chapter II.

<sup>40</sup> *Survey*, chapter IV; Raúl Prebisch, *Theoretical and practical problems of economic growth*, *op. cit.*, chapter III.

<sup>41</sup> Raúl Prebisch, "Commercial policy in the underdeveloped countries", *American Economic Review*, Vol. 49, No 2, May 1959.

<sup>42</sup> Raúl Prebisch, *Towards a dynamic development policy for Latin America* (E/CN.12/680/Rev.1), New York, United Nations publication, Sales No: 64.II.G.4, 1973.

which could be summed up as a trend towards stagnation. In some cases, these phenomena were accompanied by overt inflation, and by serious social tension and political unrest.

In addition to this enlargement of the initial frame of reference, the analysis is influenced by sociological studies,<sup>43</sup> and by the inflation controversy, in which emphasis was being placed on the incidence of certain structural characteristics peculiar to the periphery. The avowed objective of the new attempt at interpretation, moreover, was to find some explanation of the above-mentioned long-term trends which would take into account the interaction of economic, social and political factors. In reality, however, two different types of analysis were made, one dealing with the external bottleneck and the other with internal obstacles to development. Although it gains considerably in depth and precision, the first is, when all is said

<sup>43</sup> See the following studies by José Medina Echavarría: "Las condiciones sociales del desarrollo económico" and "Tres aspectos sociológicos del desarrollo económico", both in *Aspectos sociales del desarrollo económico*, Series commemorating the XXV anniversary of CEPAL, Santiago, Chile, 1973 (an English translation of the second of these appeared under the title of "Three sociological aspects of economic development", in *Economic Review of Latin America*, Special Issue, Bogotá, Colombia, August 1955); "Relationships between social and economic institutions. A theoretical model applicable to Latin America", *Economic Bulletin for Latin America*, Vol. VI, No 1, Santiago, Chile, March 1961; "Economic development in Latin America: sociological considerations" (E/CN.12/646), Santiago, Chile, mimeographed text, 1963. See also CEPAL, "The social development of Latin America in the postwar period", Santiago, Chile, mimeographed text, 1963. (Published in Spanish only: *El desarrollo social de América Latina en la postguerra*, (E/CN.12/660), Buenos Aires, Solar-Hachette, 1963.)

and done, a new version of the economic analysis of external disequilibrium, already embodied in the interpretation of the industrialization process.<sup>44</sup> The second is a general and mainly descriptive evaluation of the way in which the agrarian and industrial structures are shaped through interaction with a socio-political structure marked by the concentration of property and income. This lowers standards of efficiency and hampers capital accumulation and entrepreneurial action, to the detriment of the dynamism of economic and social development.<sup>45</sup>

The links between CEPAL thinking and that of independent writers with a similar orientation are particularly intricate in the case of inflation theory, since many of the studies in that field were published in a personal capacity, reflecting views which did not always coincide with those of CEPAL. The earliest contributions to the structuralist approach to inflation must be sought in the discussion aroused by the sharp acceleration of the inflationary process in several Latin American countries, shortly after the

<sup>44</sup> See CEPAL, *Economic Development, Planning and International Co-operation* (E/CN.12/582/Rev.1), Santiago, Chile, United Nations publication, Sales No: 61.II.G.6, 1961; Raúl Prebisch, *Towards a Dynamic Development Policy for Latin America*, *op. cit.*, pp. 67-88, and "Economic development or monetary stability: the false dilemma", *Economic Bulletin for Latin America*, Vol. VI, No 1, Santiago, Chile, March 1961; M.C. Tavares, *et al.*, "The growth and decline of import substitution in Brazil", *Economic Bulletin for Latin America*, Vol. IX, No 1, March 1964, especially pp. 1-11.

<sup>45</sup> See CEPAL, *Economic Development, Planning and International Co-operation*, *op. cit.*, chapters I and III; Raúl Prebisch, *Towards a Dynamic Development Policy for Latin America*, *op. cit.*, pp. 3-49.

end of the hostilities in Korea. The initial markedly polemical tone, which was maintained in the documents published up to the beginning of the 1960s, seems to have helped to make this approach the most widely disseminated and the best known; and also to some extent accounts for the extension of its designation to the whole set of analytical instruments based on the conception of the centre-periphery system.<sup>46</sup>

## 2. *The sphere of economic policy*

As already noted, the recommendations in favour of industrialization, and of its deliberate guidance by means of development policy and planning, constitute basic *idées-force*, closely linked to the ideas relating to the *modus operandi* of the centre-periphery system which form part of the original conception. These recommendations, however, are not put forward only at a general level, but gradually gain in clarity and precision as the above-mentioned sets of analytical instruments develop. Even without having examined them in detail, it is plain to be seen that from the several formal versions of deterioration theory a policy conclusion of supreme importance can be drawn: industrialization is the one and only way of pushing up levels of labour productivity and of wages in the periphery, and gradually reducing the differences between them and the levels prevailing in the centres, while attempting in addition to retain, by this means, the fruits of technical progress. Similarly, it is understandable that an interpretation of the industrialization process which records the other anomalies inherent in it — the intersec-

<sup>46</sup> See the publications on inflation listed in part D of the bibliography.

toral distortions of production and the trends towards under-employment and external disequilibrium— should serve as the basis for a recommendation to carry it out on deliberately-planned lines.

What is more, an endeavour is made to establish appropriate criteria for the allocation of resources to peripheral industrialization, which will offer guidance as to how to distribute investment between the export sector and each of the several internal activities and what technologies to use, so as to palliate the external disequilibrium trend, while at the same time maximizing employment, labour productivity and social income. These criteria constitute a preamble to the planning techniques which began to be devised about 1952 with the explicit aim of imparting greater precision and consistency to development policy, i.e., of expressing the objectives just mentioned as a set of mutually compatible ends and means, within each period and between different income periods.<sup>47</sup>

The analysis of the structural obstacles to development reflects a change of attitude as regards the region's industrialization prospects. In the early 1950s a relatively optimistic view of these prospects was taken, and it was thought that the dynamism of the process itself, linked to the economic policy measures formulated to attenuate its notable disequilibria, would suffice to ensure continuity in the modification of the structure of production and the gradual

<sup>47</sup> Raúl Prebisch, *Theoretical and practical problems of economic growth*, *op. cit.*, chapter II to IV; CEPAL, *Estudio preliminar sobre la técnica de programación del desarrollo económico* (E/CN.12/292), March 1953; and Jorge Ahumada, *An Introduction to the Technique of Programming* (E/CN.12/363), New York, United Nations publication, Sales No: 55.II.G.2, June 1955.

improvement of average levels of productivity. It was also confidently believed that these economic changes would be accompanied by changes in the social and political structure favourable to the continuity of the industrialization process and to the widespread distribution of its benefits. Towards the end of the 1950s the idea began to gain ground that the structural obstacles to development underlying the disequilibria were of such a nature that they might distort its results as regards the extent and equity of the distribution of its benefits, if not slow it down or bring it to a halt.<sup>48</sup>

In accordance with this change of viewpoint, a different orientation was also proposed for long-term policy. For although industrialization was still regarded as a basic element in such policy, it was felt that to clear the way for economic development the obstacles hindering it would have to be removed by the introduction of structural reforms—especially land reform—, concurrently with the application of incentives to production and of active social, employment and income-distribution policies. A critical attitude to planning and its techniques was likewise adopted, and an attempt was made to renovate them through the introduction of methods whereby these new objectives could be taken into account and made viable.<sup>49</sup>

<sup>48</sup> CEPAL, *Development Problems in Latin America: An Analysis by the United Nations Economic Commission for Latin America*, Austin, University of Texas Press for the Institute of Latin American Studies, 1970, pp. xli-xliii.

<sup>49</sup> CEPAL, *Economic development, planning and international co-operation*, *op. cit.*, chapter VI; Raúl Prebisch, *Towards a dynamic development policy for Latin America*, *op. cit.*, pp. 3 to 49 and 56 to 64; ILPES, *Discusiones sobre planificación*, Textos del ILPES series, Mexico City, Editorial Siglo XXI, 1966.

*Pari passu* with the development of theory, and in close connexion with the recommendations just mentioned, a vast body of arguments is deployed on policy in the sphere of international economic relationships, in which the need for protection of the domestic market is analysed, and a study is made of the limits within which this contributes to the attainment of standards of efficiency in peripheral industry.<sup>50</sup> Attention is devoted to the benefits of Latin American integration, whereby the scope of import substitution can be enlarged and better advantage can be taken of economies of scale, with positive effects on the level of resource productivity and on the margin by which it differs from that prevailing in the industrial centres.<sup>51</sup> The reasons for the desirability of resorting to external financing are stated: the domestic savings effort can be supplemented in economies whose low levels of productivity and average income preclude the restriction of current consumption, and the limitations imposed on import-substituting industrialization by the slow growth of traditional exports can be lessened. It is likewise explained that such financing must necessarily be a temporary expedient, in order to obviate the risk that an increasing burden of remittances might in the long run reduce the peripheral economies' capacity to import.<sup>52</sup> Attention is drawn to the importance of obtaining international

<sup>50</sup> Raúl Prebisch, *International Co-operation in a Latin American Development Policy* (E/CN.12/359), New York, United Nations publication, Sales N°: 54.II.G.2, September 1954, chapter IV; Raúl Prebisch, "Commercial policy in the under-developed countries", *op. cit.*

<sup>51</sup> CEPAL, *The Latin American Common Market* (E/CN.12/531), New York, United Nations publication, Sales N°: 59.II.G.4, 1959.

technical assistance, above all in the exploration and inventorying of natural resources, the training of personnel, and scientific and technological research.<sup>53</sup> Emphasis is placed on the necessity of concerting such international co-operation measures as may help to prevent or offset a fall in the relative prices of primary commodities, and to palliate the

effects of their fluctuations. Lastly, stress is laid on the trade preferences extended by the centres to the industrial products of the periphery, as a key element in a policy designed to eliminate the external bottleneck by a combination of import substitution, regional integration and exports of manufactures to the rest of the world.<sup>54</sup>

### III.

## Criticisms from the standpoint of orthodoxy

Although without examining its many components in detail, an attempt has been made in the foregoing observations to give some impression of the unity of CEPAL thinking. Reference to this unity implies no claim that each of its component sets of analytical instruments is completely coherent, or that a logical connexion between them has been fully established. It is merely an acknowledgement that the various theoretical components bear a stamp of their own and are, *grosso modo*, compatible with one another, since they were gradually developed in the course of time as formalizations of parts of that initial well-knit body of common hypotheses; and that the economic policy components are also compatible, since they were built up in close connexion with those of a theoretical character.

A review follows of some of the criticisms appearing in the economic literature of the centres, and relating to long-term theoretical interpretation, since they help to clarify the aspects of

CEPAL thinking which they seek to refute, as well as the characteristics of the basic conception. As will be seen, the inappropriateness of these criticisms is not due to the difficulty of grasping the unity of the thinking discussed, but purely and simply to unfamiliarity with the propositions already contained in CEPAL's early works, and, in particular, to failure to apprehend the way in which underdevelopment is viewed from the standpoint of the conception of the centre-periphery system.

#### 1. *Deterioration and well-being*

By far the majority of the critiques published in the centres deal with the trend towards deterioration of the terms of trade. The present comments refer to those actually concerned with the conceptual analysis of this phenomenon, and only tangentially to those relating to measurement problems and/or the weakness of the empirical substantiation for the existence of such a trend.<sup>55</sup>

<sup>52</sup> Raúl Prebisch, *International Co-operation in a Latin American Development Policy*, *op. cit.*, chapter II.

<sup>53</sup> *Ibidem*, chapter III.

<sup>54</sup> *Ibidem*, chapter V; Raúl Prebisch, *Una nueva política comercial para el desarrollo*, Mexico City, Fondo de Cultura Económica, 1964.

<sup>55</sup> The most general of these criticisms argues that the indexes of the commodity terms

Stress is laid in this sub-section on the criticisms relating to the significance of the terms-of-trade deterioration. They make much of the fact that it does not necessarily have an unfavourable effect on economic well-being, measured in terms of real per capita income. The argument adduced is simple; if, for example, the terms of trade fall by 5 per cent, but at the same time the productivity of factors (for simplicity's sake, average labour productivity) in the production of export commodities increases by 10 per cent, the economy under consideration will find itself in a better position than before, since it will obtain more imported goods with the same amount of resources. This implies that even if the terms of trade deteriorate, there is an improvement in the single-factoral terms of trade, which is

of trade "do not allow for quality changes and very insufficiently for new products". Since over the long term these changes have been of great importance in the case of industrial products, and of little significance in primary commodities, the evaluation of the secular trend to deterioration of the terms of trade for the two types of goods turns out to be biased, since in the indexes the changes in question are left out of account (see G. Haberler, "Terms of trade and economic development", in H.S. Ellis (ed.), *Economic Development for Latin America: Proceedings of a Conference held by the International Economic Association*, London, Macmillan and Co., Ltd., and New York, St. Martin's Press, 1963). Doubts have also been expressed as to the adequacy of the empirical support initially adopted as backing for the deterioration thesis, namely, the United Kingdom's commodity terms of trade between the 1870s and the 1940s, calculated on the basis of CIF prices for Britain's imports and FOB prices for its exports. The considerable reduction of transport costs between the years mentioned means that the terms of trade may have improved simultaneously for the United Kingdom and for overseas economies (*ibidem*, p. 333). In particular it is pointed out that between 1876 and 1905 "a large proportion, perhaps all, of the

the appropriate index for detecting variations in the level of well-being.<sup>56</sup>

It is easy to show that the argument contained in this criticism is in no way contradictory to that relating to the significance of deterioration; each is perfectly compatible with the other. Let us reconsider the equation

$$y = \frac{L_p \cdot L_p}{L_i \cdot P_i}$$

To admit that productivity increases more in the industry of the central eco-

decline in the British prices of primary products be attributed to the great decline in inward freight rates. Since the price of British manufactured exports fell in this period by 15 per cent, the terms of trade of primary countries, were FOB prices used for their exports as well as for their imports, may well have moved in their favour" (P.T. Ellsworth, "The terms of trade between primary producing and industrial countries", in *Inter-American Economic Affairs*, Vol. X, Summer 1956, pp. 55-56). A third criticism maintains that even if the improvement in the United Kingdom's terms of trade is admitted to be valid, they cannot be accepted out of hand as representative of those of the whole group of industrial countries, or of those of the said group in its trade with the less developed economies (G. Haberler, *op. cit.*; and G.M. Meier, *The International Economics of Development*, New York, Harper & Row, 1968, pp. 59-60). Lastly, attention is drawn to the fact that the same series for the United Kingdom's terms of trade shows an improvement for primary producers between 1801 and 1870 (T. Morgan "The Long-run Terms of Trade between Agriculture and Manufacturing", in *Economic Development and Cultural Change*, Vol. VIII, N° 1, October 1959, p. 4).

<sup>56</sup>G. Haberler, *op. cit.*, and G.M. Meier, *op. cit.*, p. 64. The concept used up to now is the ordinary one of commodity terms of trade, and is equivalent to that denoted by CEPAL's current nomenclature. The 'single-factoral terms of trade' means the terms of trade multiplied by an index of export productivity. The 'double-factoral terms of trade' are equivalent

nomies than in peripheral primary production is tantamount to assuming that the relation between productivities ( $L_p/L_i$ ) deteriorates for the latter. This implies that, *ceteris paribus*, the relation between income levels 'y' also follows a downward trend (average incomes tend to be differentiated). Clearly, then, this trend is consolidated and aggravated by the deterioration of the terms of trade ( $P_p/P_i$ ), and, at the same time, is not incompatible with a rise in average income in primary activities.

Thus the mistake made by the critics stems from disregard of the assumption respecting the disparity between rates of increase of productivity. Once this assumption is recognized, the deterioration of the terms of trade necessarily implies that the double-factoral terms of trade deteriorate too, which is perfectly compatible with a rise in the single-factoral terms of trade and an improvement in 'well-being', in the two sectors and/or economies trading with each other. To put it another way, in the periphery average income may conceivably grow despite the deterioration because of the increase in productivity; and, at the same time, it will grow less than in the centres, because there the increase in productivity is greater, and the improvement in the terms of trade also helps matters, as would seem to be suggested by the fact that the gap

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to the foregoing, divided by an index of import productivity. For a precise definition of these and other concepts used by CEPAL, see the document *Relación de Precios del Intercambio de América Latina* (E/CN.12/L.99), Cuadernos Estadísticos de la CEPAL, N° 1, Santiago, Chile, 1976. The various definitions of the terms of trade given in this document coincide with those current in international trade theory, as noted in J. Viner, *Studies in the Theory of International Trade*, New York, Harper & Row, 1937, pp. 558-564.

between rich and poor countries in respect of levels of living has been steadily widening since the end of the last century.<sup>57</sup>

## 2. Critiques of the causes of deterioration

Attention will next be turned to the critiques bearing on the causes of the deterioration of the terms of trade. It is often acknowledged that in the past there have been sharp cyclical fluctuations in the commodity terms of trade, and the importance of their repercussions on the less developed economies is

<sup>57</sup>Strictly speaking, for the differentiation between average income levels to be produced the terms of trade need not necessarily deteriorate; for them to remain unchanged is enough, or for the proportion by which they improve to be lower than that by which the relation between productivity levels deteriorates. The CEPAL thesis on the concentration of the fruits of technical progress in the centres is still inadequately substantiated, owing to the lack of empirical studies on the long-term evolution of the double-factoral terms of trade. Nevertheless, the well-known study by C.P. Kindleberger on the European terms of trade seems to lead to conclusions favourable to the thesis in question. Despite the remark that no evidence of the deterioration of the terms of trade between primary commodities and manufactures has been found, it is pointed out that "in European experience, terms of trade have turned against the under-developed countries and in favour of the developed"; and, further, that "the double-factoral terms of trade . . . must have done so still more" (C.P. Kindleberger, *The Terms of Trade: A European Case Study*, New York, J. Wiley & Sons, and The Technology Press of MIT, 1956, pp. 233 and 240). For other sources of information on the behaviour of the commodity terms of trade over very long periods, see T. Morgan, "The long-run terms of trade between agriculture and manufacturing", *op. cit.*, pp. 21-23.

also recognized; but care is taken to point out that they cannot be extrapolated into the future, and, above all, it is denied that they involve a long-term trend towards deterioration.<sup>58</sup> The criticisms of the theoretical arguments adduced to explain this trend appear in a twofold guise. Firstly, it is alleged that even if the monopolistic elements in the labour market of the centres influence the rise in the overall level of prices, it is hard to see how they can affect the assumed movement of relative prices to the disadvantage of primary commodities. Secondly, there is a tendency to reject the premise that demand for the periphery's primary commodities grows slowly in comparison with demand for industrial products from the centres. In this connexion it is argued that Engel's law applies only to demand for food, and reflects the behaviour patterns of homogeneous populations, so that it cannot be generally extended to world demand for primary commodities, since this includes raw materials, and, moreover, there may be a boom in demand in the periphery itself.<sup>59</sup>

The weak point in these criticisms is fairly clear: it consists in that the arguments on which the explanation of the deterioration trend is based are considered in isolation and refuted separately, regardless of the theoretical context in which they are inserted. For example, no notice whatever is taken of the 'cycles version' of deterioration theory, the function of which is precisely to explain how the different labour market conditions prevailing in the centres and in the

periphery are capable of producing the differentiation between wage levels in the two types of economy, and how this differentiation, in turn, is linked to the decline in the terms of trade. Neither is any heed paid to the arguments which indicate why the growth rate of the central countries' demand for raw materials –and not only for food– tends to be slow; nor is it observed that the train of reasoning relating to the disparity between the growth of demand for imports of primary commodities and that of demand for industrial imports is expounded with reference to the centre-periphery system, i.e., to the two 'homogeneous populations' which by definition constitute it.

But what is really important to stress is that when each argument is taken separately, the deterioration phenomenon itself is brought into the foreground, and criticism is confined to calling its existence in question. From another angle this implies disregard and concealment of the fact that in the theories to which such critiques refer the terms-of-trade deterioration is only one of the results of the workings of the centre-periphery system, and that analysis of this system is, strictly speaking, the principal objective and characteristic of the theories concerned.<sup>60</sup>

<sup>60</sup> A comparable analysis of the significance of the deterioration of the terms of trade has been made in various studies, attributing it to similar causes. H.W. Singer's article on "The distribution of gains between investing and borrowing countries", published at almost exactly the same time as the early CEPAL documents, is one of the best known. The special feature of the CEPAL approach consists precisely in that from the outset it incorporates the explanation of the deterioration phenomenon in a broader conception of the *modus operandi* of the centre-periphery system.

<sup>58</sup> G. Haberler, *op. cit.*, pp. 289-295.

<sup>59</sup> *Ibidem*, pp. 35-336; G.K. Meier, *op. cit.*, pp. 63-64.

### 3. *Repudiation of the CEPAL view of underdevelopment*

There are other critiques in which the whole body of ideas contained in the conception of the centre-periphery system is explicitly repudiated. For example, it is alleged that these ideas identify agriculture and poverty, by virtue of a supposed natural law under which technical progress occurs pre-eminently in industry, and its fruits are concentrated in that sector through the favourable movements of relative prices. It is likewise pointed out that this simplification of the actual facts is given the lie by the existence of rich agricultural countries, such as Australia, New Zealand and Denmark, and, on the other hand, of countries where industrialization has not been altogether synonymous with widespread prosperity, such as Spain and Italy.<sup>61</sup> In contrast, it is affirmed that in the so-called peripheral economies the problem is not "to be found in agriculture as such, or in the lack of manufactures as such, but in underdevelopment owing to poverty and backwardness, to *poor* agriculture and poor industry".<sup>62</sup>

It seems obvious that these criticisms are based on an alternative point of view, which envisages underdevelopment as a state or situation of backwardness in relation to the standards of modernity proper to industrialized societies. When this view is implicitly or explicitly adopted, there is also a tendency to assume that the conception of the centre-

periphery system constitutes an ideological position, according to which "... the periphery's difficulties are to be blamed on the centre"; and that this conception is, in essence, "... a modern sophisticated version of the old idea that trade can be a vehicle for exploitation rather than a means of increasing welfare all round".<sup>63</sup>

If the conception of the centre-periphery system is briefly reconsidered there will be little difficulty in perceiving the inappropriateness of these criticisms and appraisals. The conception in question postulates rather than discounts the existence of conditions of backwardness in the periphery, but gives priority to those of a strictly economic nature which it regards as general: low levels of relative productivity (heterogeneity) and lack of intersectoral complementarity in production (specialization). Another of its assumptions is that this lag is likely to persist, since it is based on the difference between the two poles of the system in respect of average real income, which in turn affects the possibilities of saving, capital accumulation and readaptation of the backward production structure (cf. section I, sub-section 4). Furthermore, this model of the operation of the world economic system is understood to be presented at a very high level of abstraction, which does not preclude considering other aspects of the peripheral 'lag'. Some of them are taken into account in the conception itself, in particular certain characteristics of spontaneous industrialization, such as external disequilibrium, intersectoral maladjustments in production, superfluity of manpower,

<sup>61</sup> J. Viner, *International Trade and Economic Development*, Glencoe, Illinois, The Free Press, 1952, pp. 62-63.

<sup>62</sup> L.E. Di Marco, "The evolution of Prebisch's economic thought", in L.E. Di Marco (ed.), *International Economics and Development*, New York, Academic Press, 1972, p. 10.

<sup>63</sup> A.O. Hirschman, "Ideologies of economic development in Latin America", in A.O. Hirschman (ed.), *Latin American Issues*, New York, The Twentieth Century Fund, 1961, pp. 23 and 15.

etc. These and other special features are analysed in the various sets of analytical instruments in which the initial conception takes shape.

Clearly too, for none of these characteristics of the peripheral economies is the responsibility imputed to the great industrial centres. In particular, no assertion is made that the deterioration of the terms of trade is the cause of peripheral backwardness, or that it is due to any exploitation of the periphery by the centres; rather, it is viewed as a phenomenon inherent in the operation and deriving from the peculiar structural features of the system as a whole.<sup>64</sup>

Thus it seems hardly legitimate to impugn the conception of the centre-periphery system and the theories deriving from it on account of their ideological character, unless it be for reasons similar to those which support the opinion that economic theory of neo-classical and Keynesian origin is ideologically biased. Nevertheless, although it is not justifiable to maintain that in the

<sup>64</sup> In the works of A.G. Frank a foremost place is given to the idea of the bipolarity of capitalism —which is conceived as generating the development of 'metropolitan countries', and at the same time the underdevelopment of the 'satellites'—, and this bipolarity is linked to the expropriation of a substantial proportion of the economic surplus and its appropriation by another sector of the world capitalist system (A.G. Frank, 'El desarrollo y el subdesarrollo', *Desarrollo*, Year I, No 2, Colombia, March 1966, pp. 11-12. See also the same author's *Capitalism and Under-development in Latin America*, New York, Monthly Review Press, 1965). This exploitation connotation proper to the metropolitan country-satellite pair of concepts was subsequently incorporated in some of the studies by Latin American writers who share what is known as the 'dependency approach'. The works by European authors on "l'échange inégal" give a similar connotation to the deterioration of the terms of trade.

last analysis differences can be detected between standards of objectivity in conventional economic theory and in Latin America's so-called structuralist approach, it must be borne in mind that the former has been *de facto* used to buttress positions which are of interest to the developed capitalist economies, and that the structuralist points of view have enlisted the support of the Third World countries in various gatherings, where they have been invoked to defend these countries' interests, at the level of international economic relations. The most significant cases in point are afforded by the first and second sessions of the United Nations Conference on Trade and Development (UNCTAD).<sup>65</sup>

<sup>65</sup> At these meetings the underdeveloped countries presented common positions in four basic fields: the trade preferences of the centres in relation to industrial exports from the periphery; agreements on raw materials and foodstuffs, as a precaution against fluctuations in the value of peripheral exports; compensatory financing for the losses caused to the periphery by the behaviour of the terms of trade; and the high costs of maritime transport and other services. In those years the document most directly related to the positions in question was 'Towards a new trade policy for development', a report by Raúl Prebisch (Secretary-General of the Conference) to the first session of UNCTAD, *Proceedings of the United Nations Conference on Trade and Development, Geneva, 23 March-16 June 1964*, Vol. II, *Policy Statements* (E/Conf.46/141, Vol. II), New York, United Nations publication, Sales No: 64.II.B.12. 1964.

For accounts of the influence of the CEPAL conceptions on the first two sessions of UNCTAD, see A.A. Dadone and L.E. Di Marco, 'The impact of Prebisch's ideas on modern economic analysis', in *International Economics and Development*, *op. cit.*, pp. 23-27; and L. Turner, *Multinational Companies and the Third World*, London, Allen Lane/Penguin Books Ltd., 1974, pp. 87-90.

## IV.

### Scope and limitations of the CEPAL approach

The most important of the criticisms levelled from the standpoint of conventional economics at the components of CEPAL's long-term thinking in the sphere of theoretical interpretation have just been passed in review. A systematic survey of the comments and critiques appearing in the economic literature of the centres, carried out in 1971, confirms the overall impression recorded in the foregoing summary: save in exceptional cases, CEPAL's contributions are not judged as a whole, nor is their scope in the field of under-development theory properly evaluated.<sup>66</sup>

The following remarks refer to the group of writings which are classified as 'basic theoretical contributions' in the table included in the present article: that is, the conception of the centre-periphery system, the three formal versions of the theory of the deterioration of the terms of trade and the several instruments of partial analysis which make up the interpretation of the industrialization process. In the first place,

<sup>66</sup> See K.G. Ruffing, *Two Decades of Controversy: Reactions to the Theories of Prebisch and ECLA*, CEPAL, mimeographed text, 1971, especially pp. 26-30. The most all-embracing and incisive of the criticisms, formulated by M.J. Flanders in "Prebisch on protectionism: an evaluation", *Economic Journal*, 1964, cannot be examined without going into details of CEPAL's analytical processes; in any event, it makes no difference to this basic conclusion. The principal critiques on inflation theory are listed in the bibliography on the subject appended to the present article.

brief allusion is made to the main problems of cohesion which exist in these contributions; the nature of their approach is then defined, and in default of a meticulous study of them, they are contrasted with conventional economics to show that the degree of unity they attain is so considerable that they sketch the outline of a theory of under-development. Again in default of a detailed review, recourse is had to one example —that of the interpretation of external disequilibrium— with the aim of inferring from it the limitations of the approach adopted in this group of basic contributions. It is pointed out that while this approach may explain certain disproportions between production sectors inherent in peripheral industrialization, it cannot do the same for the social relations which pivot upon production and give impetus to industrial development.

#### 1. *Problems of cohesion*

A detailed examination of these contributions warrants the assertion that the comprehensive and complex train of reasoning they embody is, in essence, ordered and linked up around the explanation of three trends which are considered to be inherent in import-substituting industrialization: the deterioration of the terms of trade, external disequilibrium and structural unemployment.<sup>67</sup>

Setting aside minor flaws in reasoning and inconsistencies of secondary importance, such an examination also reveals a significant lack of cohesion in the interpretation of employment problems. In this field, the ideas proper to the conception of the centre-periphery system are set forth clearly at a general level, and some attempts at formalization also exist, but these ideas are not satisfactorily related with one another. To put it more exactly, no theory has been outlined which makes a strict and precise examination—in the light of certain assumptions as to rates of capital accumulation and population growth—of how the inappropriateness of the technology generated in the centres, and the structural heterogeneity characteristic of the periphery, tend to slow down the growth rate of demand for labour, and to speed up that of supply from low-productivity sectors, with the result that structural unemployment is created.

The lack of precision just indicated brings in its train a second important deficiency. Obviously, this imprecision in itself implies that no integrated and coherent explanation of the three above-mentioned trends is available, that is, no model establishing what conditions should be simultaneously fulfilled in order to ensure that none of those trends and anomalies emerge during the import-substituting industrialization process. For example, to consider—for simpli-

city's sake—only two of the trends concerned, it has not been clearly established—given certain assumptions on trends in the central economies—how sectoral growth rates should be combined in such a way as to safeguard, in the first place, the preservation of external equilibrium, and secondly to secure the gradual reabsorption of the entire labour force in satisfactory conditions of comparative productivity, and within a definite space of time. In other words, the flaws in one of the theses discussed—that relating to employment problems—imply that neither has CEPAL achieved complete logical articulation of the several theories commented upon here.

## 2. *Approach adopted*

But it is less important to dwell upon these problems of cohesion than to stress the actual nature of the approach adopted in these theories—that is, its structuralist character—, since it is upon the type of approach that the scope and limitations of the whole set of analytical instruments ultimately depends.

A clear impression of the structuralist character of the initial conception can be formed from the description given in section I. This basic conception accords priority to the peculiar features of the peripheral structure of production, defining it in terms of the level of labour productivity in its various component sectors and the degree of intersectoral complementarity existing, and contrasting both these with the characteristics of the production structure of the centres. Defining the structural characteristics of the periphery in terms of their differentiation from those of the centres implies, of course, that at the same time a particular system—the

<sup>67</sup>The intersectoral maladjustments in production—infrastructural deficiencies, rigidity of agricultural supply, etc.—constitute a fourth trend peculiar to the industrialization phase. It is not taken into account for the sake of simplicity, and because its explanation is of secondary importance, being undertaken along with and as a corollary of the explanations of other trends.

centre-periphery system— is being characterized. The structural differences between its two poles will tend, according to the initial conception, to be perpetuated, since they are inherent in the dynamics of the system itself. Thus, for example, the structural differences brought into being by outward-directed development are assumed to persist during the phase of import-substituting industrialization. For, as has been pointed out already, while a measure of diversification of production is achieved through the latter process, it is not enough to eliminate altogether the lack of complementarity between the production sectors, or the primary-exporter specialization of the periphery; and although the increase in average labour productivity is considerable, it has been unable to make up its leeway, not only because of the possible subsistence of sectors where it is very low, but because industrialization itself is effected in different productivity conditions from those prevailing in the centre.<sup>68</sup>

<sup>68</sup>This brief re-examination of the conception of the centre-periphery system shows that, in broad outline, its approach is compatible with the definition of 'structure' as the propositions and relations characterizing an economic whole localized in time and space (F. Perroux); and that of 'system' as a coherent complex of structures (J. Lhomme), always provided that this concept is understood to possess a dynamic connotation, i.e., that structures gradually change and with them the system itself changes too (A. Marchal).

With respect to these definitions, see A. Marchal, *Systèmes de Structures Économiques*, Titre III, chapitre I, Paris, Presses Universitaires de France, 1960. It should be borne in mind, however, that the above-mentioned conception basically alludes to the sphere of economic phenomena; and that it antedates by several years the emergence of the methodological concern—which was to become common among the writers forming the so-

The structuralist approach, understood in these terms, is transmitted to the other studies mentioned above, in which the initial conception gradually takes shape. In default of a detailed review of these contributions, it is worth while to examine how this type of approach implies a modification of the objectives and assumptions of certain analytical instruments of conventional economics, by means of which a set of characteristics of peripheral development and of the relations between the periphery and the centres can be organically perceived.

The earliest CEPAL documents often counterpose deterioration theory to what is called the traditional theory of the international division of labour:<sup>69</sup> a counterposition which proves particularly illustrative of the implications of the structuralist approach.

As is common knowledge, "the traditional theory of international specialization centres on the comparison of a trading situation with a no-trade situation, and on the demonstration of the superiority of the former over the latter. This is essentially the Ricardian procedure. The mental process which we perform when, starting from a state of isolation with different pre-trade ratios of exchange in each country, we let the barriers be stripped and then study the effects of trade, is still the core of inter-

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called structuralist school of thought— with incorporating other aspects of the social situation into the interpretation of Latin American underdevelopment. As regards the connotations acquired by the concept of structure in the works of these authors, see the preface by A. Pinto to A. Castro and C. Lessa, *Introdução a economia*, Rio de Janeiro, Editorial Forense, 1966.

<sup>69</sup>CEPAL, *Development Problems in Latin America*, *op. cit.*, pp. xv-xix.

national trade theory. The assumption of a fixed initial stock of factors can be relaxed by allowing factor supplies to change in response to trade itself, without altering the essential character of this demonstration of the gains from international specialization".<sup>70</sup> These gains may benefit one single economy or more than one, depending upon the terms of trade, but logically speaking one result is certain: no country will be adversely affected by trade, since each will attain at least the level of wellbeing that it would reach without external transactions.

The hypotheses of the conception of the centre-periphery system, which are linked to the interpretations of the deterioration trend, are in sharp contrast with this way of looking at international economic relations. For the conception in question, these relations are characterized by the exchange of primary commodities for manufactures, a pattern peculiar to trade between the two poles of the system. Underlying this pattern are the differences between their structures of production, one being specialized and heterogeneous, the other diversified and homogeneous. These differences are implicit in the assumption relating to the disparate increases in labour productivity in the centre and in the periphery, and are basic elements in the explanation of the deterioration of the terms of trade. Taken together, these two phenomena account for the difference in average real income levels; and in turn, this difference helps to explain why structural backwardness tends to persist.<sup>71</sup>

<sup>70</sup>R. Nurkse, "International trade theory and development policy", in H.S. Ellis (ed.), *Economic Development for Latin America*, *op. cit.*, p. 235.

<sup>71</sup>See Section I, sub-sections 3 and 4.

Thus, traditional theory –which presupposes similar degrees of development in the economies trading with one another– adopts a body of assumptions appropriate for demonstrating the advantages of specialization and trade over isolation. The conception of the centre-periphery system, on the contrary, begins by admitting that between these two types of economy there are substantial differences in respect of structural characteristics and average levels of productivity and income. And it propounds a set of alternative assumptions with the aim of showing that, in the dynamics of the development of the aforesaid system, the fruits of technical progress tend to be concentrated in the central economies, and the structural inequality tends to persist.<sup>72</sup>

Since they are geared to the explanation of the above-mentioned trends –deterioration of the terms of trade, external disequilibrium and unemployment–, the arguments embodied in the whole set of analytical instruments under consideration delineate an image of underdevelopment quite distinct from

<sup>72</sup>This hypothesis of the perpetuation of the structural differences between periphery and centre has only been postulated in general terms; that is, it has not been developed on any precise analytical lines whatever in the three formal versions of deterioration theory to which this sub-section tacitly refers. To make the point clearer, it should also be repeated that the structural differentiation does not imply that pre- or semi-capitalist modes of production necessarily survive; since it may, for example, be confined to productivity disparities between certain branches of peripheral industry and the corresponding branches in the centres. Nor does it imply the absence of any diversification in the periphery's structure of production, but simply the continual resurgence of the difficulty of giving exports and imports the momentum required for intensive accumulation and growth.

those presented in contrast to the neo-classical and post-Keynesian growth models.

These models, of course, establish the rate of capital accumulation and/or of income growth required to keep up full employment, and/or maintain full utilization of installed capacity, both of which are virtually expressions of the dynamic equilibrium of the economic system. It often happens that the specific objectives and the behavioural assumptions proper to this type of model are left on one side, and that a 'stylized' and extremely simple conception of growth is inferred from them, which stresses some of the conditions necessary for the expansion of income, in particular an increase in the quantity of factors of production and/or in their productivity.

Underdevelopment is judged against this simple standard of reference, an attempt being made to identify the factor or factors that prevent the attainment and maintenance of a high rate of growth of social income. For example, reference is often made to the existence of a twofold vicious circle: backwardness and poverty, on the one hand, reduce the possibilities of saving and accumulation; on the other hand, they limit the size of the market and investment opportunities; and all these are requisites for overcoming poverty and backwardness.

The theories under discussion here do not deny that in less developed societies backwardness of various types exists, or that it may possibly place obstacles in the way of transformation of such societies. But in view of their basic hypotheses, it is understood that they formulate their analysis in a context which is at once broader and more abstract—that of the economic relationships between centre and periphery—endeavouring to show that the latter's relative backward-

ness tends to be perpetuated, with the characteristic differences in productivity, income and structure to which allusion has so often been made.

These theories seek not only to define the position of the periphery in the world economic system, but also to discern the internal aspects of the evolution of the peripheral type of economy. Particularly through the interpretation of import-substituting industrialization, they attempt to show that what is termed inward-directed development is a specific process—not the mere persistence of backwardness—which is characterized not only by the trends and contradictions referred to above, but also by given patterns of structural change which are peculiar to it: the foundation of the industrial sector on the branches closest to the market for final consumer goods entailing comparatively simple technology; the relative rigidity of the agrarian structure; the inappropriateness of the scale and capital density of the technology generated in the centres; the differing degrees in which this inappropriateness is apparent in the various sectors and branches of the peripheral economy; etc.

Although in very brief outline, the considerations set forth in the foregoing paragraphs show that the conception of the centre-periphery system transmits its structuralist character to the theories in which it takes shape, with the result that in them underdevelopment is not envisaged as a mere state of backwardness but as a specific process: the long-term economic evolution of the periphery, conditioned by the framework of its trade relations with the centres. Taken as a whole, these contributions sketch out a theory of the peripheral economy, or, if preferred, a theory of underdevelopment.<sup>73</sup>

### 3. An example of structuralist analysis

In their structuralist character, then, the originality and the chief merit of these contributions are to be found. But at the same time this type of approach constitutes their principal limitation, as can be seen when attention is turned to their formal and strictly analytical aspects. Investigation of what they have in common from this standpoint reveals that they explain the three tendencies peculiar to spontaneous industrialization by *disproportions* occurring between the volumes and/or the growth rates of production, and/or the utilization of productive resources, in the various sectors, internal and/or external (peripheral and/or central).

Strictly speaking, to test the accuracy or inaccuracy of this generalization detailed study of the contributions concerned is needed. But at least an idea of its significance can be formed from one example, i.e., the explanation of the trend towards external disequilibrium.

The pivot of the reasoning relating to this trend is the concept of unequal elasticities, already suggested. The assumption is that the income-elasticity of

demand for imports of peripheral primary commodities is less than one in the centres, and, therefore, that their imports (that is, peripheral exports) will increase more slowly than their income. Similarly, it is postulated that the income-elasticity of the periphery's demand for imports of industrial goods from the centre is greater than one, and, therefore, that in the periphery imports will increase faster than income. Hence the conclusion reached is that to maintain external equilibrium, the rate of growth of the periphery will have to be slower than that of the centre, and that, in contrast, if it is more rapid than in the centre –or, more precisely, if it exceeds the limit set by the expansion of the centre and the inequality of elasticities–, there will be a tendency to external disequilibrium.<sup>74</sup>

On the basis of this reasoning two characteristic features of peripheral industrialization are explained: import substitution and the change in the com-

<sup>74</sup> Let  $G_p$  and  $G_c$  be the growth rates of income in the periphery and in the centre, and  $E_p$  and  $E_c$  the respective income-elasticities of demand for imports. The equation  $G_p \cdot E_p = G_c \cdot E_c$  indicates what condition must be fulfilled if the external equilibrium of the two economies is to be maintained through time, *ceteris paribus* in respect of prices and capital movements. An alternative equation

$$G_p = \frac{E_c}{E_p} \cdot G_c$$

makes it easier to see that if elasticity is lower in the centre than in the periphery (if  $E_c < E_p$ ), the maintenance of external equilibrium requires that the rate of income growth be slower in the periphery than in the centre, and all the slower, the greater the disparity in elasticities. If this limit is exceeded, disequilibrium will probably result.

<sup>73</sup>In the British and American economic literature of the 1950s the name 'Prebisch-Singer thesis' is given to the postulates on the deterioration of the terms of trade, its significance and its causes. During the 1960s, especially after the first session of UNCTAD, the term 'Prebisch thesis', or 'The theory of the peripheral economy' is applied to the several versions of the deterioration theory, or even to the general ideas contained in them. In these remarks, on the other hand, it is considered that, although the conception of the centre-periphery system is its cornerstone, only the whole body of contributions described as 'basic' in the table included in this article forms, *grosso modo*, a 'theory of the peripheral economy'.

position of imports. The argument is simple: if growth is to take place at a higher rate than that imposed by the conditions described above and disequilibrium is to be obviated, it will be necessary to restrict imports of certain goods which come to be included in domestic production, and to prohibit those of other non-essential goods, in order to cope with the huge demand for industrial imports caused by income growth and by import-substituting production. It is likewise understood that import substitution involves a change in the composition of imports, since their restriction affects certain types of goods (for example, non-essential and/or easily-processed consumer goods, during the early phases of the process), while they are expanded in the case of other goods of a different nature (for example, intermediate inputs and machinery).

It should be noted that the foregoing analysis of the import substitution process is formulated in tacit contrast with a theoretical standard of reference, which establishes what conditions must be met in order to safeguard external equilibrium. Given certain postulates relating to the growth of the centres and of the primary-exporter sector of the periphery, it is assumed that the expansion of the sectors geared to the domestic market could be effected in such a way that complementarity between their lines of production, combined with the change in the composition of imports—the timely restriction of some of them, to clear the way for meeting the import requirements of the expanding sectors—, would enable external equilibrium to be maintained. The trend towards disequilibrium is explained in contrast with this standard of reference: import substitution itself, inasmuch as it takes place in the way described above—starting from

import substitution in respect of the simpler goods and moving towards the more complex types—, generates huge import requirements, which tend to exceed the limits set by the slow growth of exports and by the exhaustion of import restriction possibilities. In other words, the changes in the production structure and in the corresponding range of imports are not in practice occurring in accordance with the conditions of proportionality required to preserve external equilibrium. This is explained, therefore, in the last analysis, by *disproportions* between the growth rates of the various peripheral sectors and/or between those and the growth rate of the centres.<sup>75</sup>

#### 4. Main limitations

The foregoing interpretation of the trend towards external disequilibrium can be approached from yet another angle. The ideal conditions of intersectoral complementarity of production required to prevent disequilibrium imply that specialization (lack of complementarity) is gradually eliminated through the substitution process. In contrast, the

<sup>75</sup> This type of explanation reaches a high degree of coherence in the article by M.C. Tavares on "The growth and decline of import substitution in Brazil", *op. cit.* Its importance lies in the fact that in it the movements of the trade balance are associated with the changes in the structure of production; for, as will be seen shortly, this implies that the hypotheses of the basic conception are consistently incorporated in the analysis of external disequilibrium. As Samir Amin has pointed out, the CEPAL documents also contain a theory of the structural adjustment of the balance of payments, but it is less precise than the one referred to here. (See S. Amin, *L'accumulation à l'échelle mondiale*, Paris, Editions Anthropos, 1970, pp. 560-574, and especially pp. 567-571).

actual pattern of change in the structure of production, which makes for disequilibrium, is attended by disproportions which mean that the specialization peculiar to the periphery is not being successfully overcome. Clearly, therefore, the disproportions that account for external disequilibrium are nothing but the expression, from the standpoint of formal analysis, of a key aspect of the initial body of hypotheses: the specialization of the peripheral structure of production.<sup>76</sup>

Not only this trend, but also the other two to which allusion has previously been made, can be imputed to disproportions which are considered to be inherent in import-substituting industrialization. And in every case, these disproportions have the same significance: they constitute a formal expression of the idea that the specialization and structural heterogeneity of the periphery persist, despite the change in

<sup>76</sup>The explanation of the external disequilibrium trend described here assumes that the periphery's exports increase at a given rate and that they retain their primary character. For that very reason, it presents specialization only in the guise of a lack of intersectoral complementarity of production. An alternative standard of reference is conceivable which envisages the diversification both of production for the domestic market and of exports, thus remedying not only the lack of complementarity but also the primary-exporter condition of the periphery. It is important to note that in the first type of model import substitution necessarily involves a fall in the export and import coefficients, and that this 'closed' character of the development process is incompatible with an increase in the ideal share of foreign ownership in the total assets of peripheral economies. These implications are not, on the other hand, necessary in models of the second type, which are compatible with different degrees of openness to the outside world and of denationalization of the economies in question.

the structure of production that industrialization involves.<sup>77</sup>

The foregoing generalization incorporates the main limitation attributed in these remarks to the body of contributions under review. The approach they adopt defines and gives priority to certain structural characteristics of the periphery and of the centre which relate exclusively to the sphere of production of goods; this makes it difficult, if not impossible, to do more than present the disproportions generated at that level, such as those emerging in the trends peculiar to the phase of inward-directed development.

This limitation derives from the very nature of the approach adopted, that is, from its structuralist character; and accordingly, it is independent of the problems of cohesion indicated in subsection 1, where it was pointed out that the logical articulation of CEPAL's basic analyses has not been satisfactorily achieved. Very broadly speaking, it may be assumed that the requisite for doing so is an ideal pattern of overall and sectoral growth designed in such a way that the trends proper to import-substituting industrialization are not engendered, and providing a suitable cri-

<sup>77</sup>Just as the specialization hypothesis underlies the interpretation of the trend towards external disequilibrium, that of structural heterogeneity is of key importance in the arguments relating to the unemployment trend. The two hypotheses play a joint part in the explanation of the deterioration of the terms of trade. Of the two theories designed to expound its causes—or, more exactly, to explain the conditions of disproportionality which lie at its root—the 'cycles version' is better adapted to the general characteristics of the centre-periphery system during the phase of outward-directed development, and the 'industrialization version' is applicable solely to the phase of inward-directed development.

terion for assessing, by contrast with it, the disproportionality underlying these trends.

Owing to its complexity, presenting such a standard of reference coherently entails defining what overall and sectoral conditions in respect of capital accumulation and penetration of technology will ensure well-proportioned growth, and prevent the emergence of the aforesaid disequilibria and undesirable trends. To attain this end, however, it is enough to establish the conditions of the accumulation 'required' for the several proportionality relations to be simultaneously fulfilled. And these 'required' or 'necessary' accumulation conditions do not correspond to the accumulation process as it may be imagined to derive from the behaviour of specific economic agents, whose decisions, in actual fact, are responsible for the real patterns of structural change which give rise to deterioration of the terms of trade, external disequilibrium, and unemployment.

To take a further look at this same argument, we may enlarge upon an example previously cited. Let us suppose an intersectoral distribution of investment, linked to certain technological options, whereby unemployment could be avoided, and labour productivity brought up to the same levels as in the centre, within a definite time horizon; and that at the same time it provides for increases in installed capacity in the export sector and in each of the sectors producing for the domestic market, together with changes in the range of imports, capable in the aggregate of preventing external disequilibrium. But this ideal pattern of 'required' accumulation cannot explain why accumulation has in practice been taking place at a specific overall rate, or why in reality it has done so at particular rates in the various sec-

tors; in other words, this paradigm does not reveal the reasons why in actual fact an accumulation pattern was produced which has led to unemployment and external disequilibrium.

Generalizing on the basis of the foregoing observations, it may be said that CEPAL's basic theories, by virtue of the approach adopted, succeed only in enunciating the 'laws of proportionality' proper to peripheral industrialization; and in detecting, by contrast with these laws, certain disproportions which emerge as the structure of production changes during the industrialization process, and which lie at the roots of the above-mentioned disequilibria and trends. But the causes of these are not brought to light, i.e., no account is given of the social relations which are established in the sphere of production, and which give impetus to industrialization and the accompanying structural changes.

The same limitation is observable from another standpoint, if attention is once again turned to the basic content of the theories considered here. It has already been pointed out that in the conception of the centre-periphery system there is a basic nucleus of hypotheses according to which this system evolves on bipolar lines, that is, following an unequal development pattern, in which the differences between average levels of productivity and income and between structures of production interact and tend to persist through time. At the heart of their interaction are the differing saving and accumulation potentials which, on the one hand, derive from the inequality between productivities and incomes, and which, on the other hand, promote disparate changes in the structures of production.

The analysis of this key aspect of the initial conception cannot be based only

on the accumulation patterns 'necessary' or 'required' to prevent the emergence of certain disproportions between the sectors of production, since the bipolarity of the system does not depend solely on such disproportions, but also on the general conditions in which accumulation takes place in the system as a whole. Consequently, the theoretical development of the fundamental hypotheses, not achieved in CEPAL's contributions, necessitates studying and incorporating into the analysis the basic economic relations established around the generation, appropriation and utilization of the economic surplus in the centre-periphery system. It is outside the scope of the present article, however, to deal in detail with the implications of the criticisms indicated above.

##### 5. *By way of synthesis*

The article by R. Nurkse previously cited contains two observations which make a useful point of departure for these final remarks.

In the first place, he points out that in practice the traditional pattern of the international division of labour was much more than a mere application of the principles of comparative advantages: it constituted a veritable 'engine of growth'. In other words, he maintains that during the nineteenth century, while the pattern in question was being consolidated, the character and the dynamism of international trade were such that the rapid development which was taking place in the centre was transmitted to the younger peripheral countries through a boom in demand for primary commodities. Secondly, he alludes to the fact that, in some cases, the expansion of the world economy led to a lopsided pattern of development which gave rise

to the coexistence of a modern export sector with much less developed, if not frankly primitive, sectors.

These two observations suggest an indubitably legitimate question. When demand for primary exports loses the dynamism it had in the past, how do the economies which acquired the foregoing characteristics continue to develop? <sup>78</sup>

The conception of the centre-periphery system is based on the same findings, and raises a similar question relating to the type of development of the peripheral economies after the world depression, which is regarded as a turning-point, and symptomatic of a change in the former outward-directed development pattern.

In fact, this question is the *leit-motiv* of CEPAL's fundamental theories: they investigate why the peripheral economies have taken the road of import-substituting industrialization, and seek to explain some of the trends and contradictions inherent in this process, such as the deterioration of the terms of trade, external disequilibrium, structural unemployment, etc.

Thus they analyse the above-mentioned anomalies, but in order to do so, incorporate the general ideas and hypotheses of the basic conception which transmits its approach to them. An attempt has been made to illustrate this point by showing that the theories referred to alter the assumptions and objectives of certain analytical instruments of conventional economics, and thereby come to constitute, in the aggregate, the outline of a 'theory of the peripheral economy'.

<sup>78</sup> R. Nurkse, "International trade theory and development policy", in H.S. Ellis (ed.), *Economic Development for Latin America*, *op. cit.*

Similarly, the formal analysis of external disequilibrium has been described with the aim of demonstrating that this latter is attributed to the way in which during the industrialization process changes take place in the structure of production in the periphery, without fully remedying the lack of complementarity between the sectors of production, or, in other words, without completely eliminating the 'specialization' characteristic of this type of economy. Generalizing on the basis of the example given, an attempt has been made to show that in every case the basic CEPAL theories account for the various trends and contradictions in import-substituting industrialization in much the same way, i.e., by ascribing them to disproportions

which arise as the structure of production changes, and which are simply the reproduction, at other levels, of the heterogeneity and specialization peculiar to the peripheral economies.

Thus, the theories under review examine from a material standpoint the changes in the structure of production which are taking place in the periphery (conditioned by its trade relations with the centre), during the phase of inward-directed development, but they do not refer to those relations between social groups which are inherent in the evolution and operation of the economic system, and by which, in the last analysis, the impetus to change is given. In this sense, the CEPAL theories alter, but do not transcend, the analytical framework of conventional economics.

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# SEVENTEENTH SESSION OF THE ECONOMIC COMMISSION FOR LATIN AMERICA

The seventeenth session of CEPAL was held at Guatemala City from 25 April to 5 May 1977. In the course of the session the 32 States members of the Commission examined the report on its activities and analysed the Third Regional Appraisal of the International Development Strategy.

The *CEPAL Review* presents the essence of the addresses delivered on this occasion by Kurt Waldheim, Enrique Iglesias and Raúl Prebisch.

The Secretary-General voiced his conviction that the North/South dialogue was coming to a crossroads in the setting of an encouraging but highly complex international panorama. The issues under discussion were complicated, but he trusted that a first package of reasonable and equitable commitments concerning such key matters as primary commodities, indebtedness, and science and technology could be achieved in 1977.

Mr. Iglesias focused his attention on Latin America. After describing the

headway made in respect of economic growth, he expressed concern at the persistence of problems connected with critical poverty, income distribution, population growth and the productive absorption of the labour force — although he also stressed his conviction that the production potential already attained afforded the objective and material basis for their solution. In the last part of his statement the Executive Secretary of CEPAL analysed Latin America's position in the context of international economic relations.

The statement by Mr. Prebisch is an affirmation of his personal viewpoint regarding the region's present problems. Thus, besides touching on strictly economic questions, such as the volume and orientation of capital accumulation and consumption, he highlights the problems related to social justice and political democracy, and emphasizes the need for an integrated and ethical approach to the challenges of development.

## Statement by Kurt Waldheim, Secretary-General of the United Nations

Your session is being held at a crucial moment in the history of international economic relations, and I am convinced that regional discussions such as those you will be holding during the next few days can make a very significant contribution to the ongoing dialogue between developing and developed countries. Latin America can indeed look upon and participate in these negotiations with a feeling of pride, and also with a particu-

lar sense of responsibility, because many of the ideas and objectives which are today at the centre of global deliberations emerged in this region and have been pursued with conviction and determination by Latin American governments over the years.

There is a widespread feeling that the North/South dialogue is coming to a crossroads. We are undoubtedly going through the most critical period of the

negotiations which have been conducted since 1973, when the balance of interests in the world began to shift, raising hopes of a new world order more attuned to a situation of global interdependence.

We should not, I believe, fail to take account of the intensive endeavours which are now being pursued, after a lengthy period of stagnation, and even decline, in international economic co-operation. The reports which will serve as a basis for your work at the session attest to this.

What is perhaps less tangible, but in many ways more significant, is that the North/South relationship is moving closer to the top of the agenda of those governments on which so much depends. Positions which were held to be intractable have now come within the realm of practical discussions. The discourse is different; doctrinal statements are yielding to the examination of specific difficulties.

Yet, these difficulties are real enough, and if we are to remain alert to opportunities, we must recognize the very special circumstances under which these negotiations are taking place:

The issues are very complex. The balance of interests and the implications of different positions are not always clearly identifiable. It should come as no surprise that there are suspicions and that the bargaining is tough;

Grave uncertainties becloud economic decisions and upset predictions. The behaviour of the world economy departs markedly from traditional patterns. A stubborn inflation, unusually combined with high unemployment, and discontinuities in the traditional price relationships, severely strain the ability to devise adequate cyclical policies;

Above all, perhaps, the present negotiation differs from previous efforts in its

stated objective to pursue a more rapid and fundamental transformation of the existing order. Past policies of capital transfers and trade liberalization remain essential, particularly in the light of present imbalances. But more of what is often called today 'affirmative action' is now required to promote changes in the structure of the world economy and in the organization of international relations.

But, when all this is said, it remains true that the intention to develop more meaningful forms of co-operation is stronger, that the conceptual framework and articulation of the negotiations are accepted, and that the commitment to certain specific measures goes beyond mere declarations of principle. The dynamics of the negotiations requires, however, in my view, that a reasonable and equitable first package be achieved this year. On the basis of the clarifications already registered, it is not difficult to select the issues on which agreement could be reached.

#### *Primary commodities*

No package would be acceptable if it did not address itself to the problem of commodities.

The negotiations on the integrated programme of commodities which are being undertaken in the United Nations Conference on Trade and Development (UNCTAD) are aimed at establishing a new international framework for the stabilization and improvement of commodity markets. They envisage changes in the structure of trade in primary commodities which would, in varying degrees, benefit both producers and consumers.

The establishment of a common fund, which would provide the assurance

of finance from a central source, constitutes the focus of the Conference at Geneva, which has entered a critical phase. There remain important issues that have to be clarified if agreement is to be reached. Nevertheless, it is encouraging to note that there is within the governments participating in the Conference a very broad commitment to negotiate towards the establishment of such a fund. A productive outcome of the negotiations taking place in UNCTAD is indeed crucially important for the future of international economic co-operation as a whole.

### *Indebtedness*

The external debt of developing countries is not a new problem. Rather it is a more or less permanent feature of their predicament. What is new is the unprecedented dimension of the indebtedness and the fact that it does not only affect adversely the plight of the debtor countries, but that it is often seen to endanger the very equilibrium of the international financial system.

There would be easy consensus about the severity of the problem, if we observe the figures—some of which I would like to quote. The *public and publicly guaranteed debt* of 78 non-oil-exporting developing countries increased from 58 000 million dollars in 1970 to 96 000 million dollars in 1973; that is, at a rate of 18 per cent per annum. In 1974, the rate accelerated to 31 per cent. The volume of that debt accumulation is estimated to have reached some 155 000 million dollars in 1975. Naturally, figures are much more uncertain in regard to *commercial debt* but probably the amount involved is well above that figure.

Yet, in the face of these staggering amounts, opinions seem to differ rather

widely as to the need for new and specific action. One sometimes encounters optimistic appraisals, intimating that the present indebtedness does not exceed the capacity of the financial market and of existing public institutions to handle it, particularly as the economic recovery is seen to be easing the external situation of most debtors.

I believe this analysis is defective on two counts. In the first instance, even if it were convincing on its own terms, it appears to consider the financial problem outside its broad economic perspective.

External indebtedness cannot be insulated from the general context of the development process of which it is only one element. For example, one of the reports before this session shows that the deficit on current account of the non-oil-exporting countries of Latin America rose from a little over 1 500 million dollars annually in the period 1965-1970—that is less than 15 per cent of exports of goods and services—to a little over 4 000 million dollars in 1971-1973—that is 22 per cent of exports—while it jumped to almost 14 000 million dollars annually in 1974-1976—that is, 45 per cent of exports.

Secondly, we should realize that the present predicament may not be a passing phenomenon. We should, therefore, ask ourselves whether the international financial mechanisms, private and public, are, in spite of their more recent diversification and refinement, adequate to cope with problems which are both new and likely to persist.

The problem of those developing countries which have been able to borrow on the market for very important amounts must receive sympathetic attention. For these countries, it is important that future access to private finance

should not be placed in jeopardy, and that the integrity of commitments should not be questioned.

But again, I would repeat, the problem is not a passing one, and we should not declare ourselves satisfied with temporary measures. We should strive to equip the international institutional system with adequate instruments to cope with a situation not previously encountered.

It is difficult to believe that the necessary degree of security can be established without the intervention of governmental or intergovernmental institutions. It is therefore logical to explore anew an idea which was floated soon after the increase in oil prices; namely, the creation of a *multilateral debt refunding facility*. Such an arrangement would help to avoid traumatic experiences in the financial market, and would encourage and facilitate the continuing access to the market of those countries which have relied, and may be again relying, on commercial borrowing.

The case for special treatment of the least developed and the most seriously affected countries is well entrenched in recent United Nations legislation. For them, recourse to private markets is almost by definition excluded; their balance of payments must be supported by adequate public assistance on concessionary terms.

But it is important that the assurance be given that such action, if necessary, will be sustained for several years. Conversely, there must be a guarantee that it will be subject to well-defined criteria.

Such an approach, I may note, could be viewed as deriving from the concept of 'collective economic security' to which the Economic and Social Council devoted considerable attention some time ago. I would suggest that the best

and easiest way of so doing would be to channel a greater proportion of capital transfers through international institutions.

### *Science and technology*

The problem of science and technology has not recently been negotiated with the same intensity as commodities. Nor has it raised the same immediate pre-occupations as foreign indebtedness. It nevertheless remains of the highest priority in the search for a new international economic order.

There is perhaps no area in which there has been a more constant consensus on the need for co-operative policies. This is understandable. Technology is an all-pervasive phenomenon. It conditions all aspects and all models of development, whether the emphasis is on growth, distribution, employment, the balance of payments or the satisfaction of basic needs. Yet it is a process which often seems to unfold along autonomous lines not directly related in a rational way toward the satisfaction of human needs.

Some of the characteristics of the technological process may begin to explain why, in spite of repeated efforts, it has eluded the comprehensive approach which has emerged in other areas of co-operation: the market for technology is peculiar; there are serious questions about the price at which it is transferred; the adequacy of existing institutional arrangements has been increasingly challenged; and there are grave doubts as to whether a large part of the technology transferred is suitable to the conditions that obtain in developing countries.

In such a context, the emergence of an autonomous technological capability in developing countries has lagged

behind the progress of other factors of development. Yet, practical programmes could do a lot, and do it rapidly, to remedy this situation. Such programmes should focus on research and development.

Despite what has been achieved, the technical assistance of the international system has not placed sufficient stress on this element. Resources should now be pledged and mechanisms organized to orient, stimulate and support research and pilot projects specifically geared to the requirements of developing countries.

These are some of the matters which will fall within the agenda of the United Nations Conference on Science and Technology scheduled for 1979. One should not aim at preempting the results which are expected from this event. But neither should one remain idle, using as an excuse that particular deadline. I firmly believe that the 1977 package of measures to come out of the current negotiations should include new co-operative policies and programmes in science and technology through existing channels and institutions.

#### *Collective self-reliance*

I should like to stress how appropriate I consider it that CEPAL should be meeting here and now, at a time when the concept of collective self-reliance is coming to the fore in the third world. Not too long ago, at the Conference on Economic Co-operation among Developing Countries held in Mexico City, I emphasized that the movement of third world solidarity was entering a new and decisive phase. I also pointed out then that this movement has never sought to insulate itself from the world context or from the institutions of world-wide co-operation.

The concept of economic integration and co-operation among States based on equality has deep roots in Latin America, going as far back as 150 years to the visionary ideas of Simón Bolívar. I believe that it is quite fitting on this occasion to recall that the Central American Republics were the first which began to put these ideals into practice when they started their integration movement in the fifties. And although these countries have encountered many problems in their pioneering efforts, I am sure that each of them has come to realize, as have others, that collective self-reliance offers many opportunities and advantages.

The Economic Commission for Latin America should feel justifiable pride in the role it has played in the emergence of this co-operative endeavour. It is indeed highly encouraging that the Commission is promoting other similar efforts, most recently in the Caribbean.

It is often stressed that the main purpose of the United Nations is to harmonize the views and interests of member nations. What we must realize is that in the area of development co-operation this harmonization can only be fully achieved within a well-articulated global scheme. This is one of the most important meanings of the search for a new international economic order.

As we more and more acknowledge the inadequacy of some time-honoured solutions and as we encounter the difficulty of striking a balance between different objectives, there must be a framework within which to formulate our proposals and initiate our actions. It is not and should not be an immutable framework, but it should be adhered to consistently over a period of time.

I have talked today about some of the more vital questions that the world

community faces at this time because I am fully conscious of the role that the regional commissions play in the processes of adjustment and negotiation inherent to the United Nations. This Commission is eminently fitted to assist in the evolution of more promising and practical approaches towards the achievement of agreed solutions.

For the greatest need today is to blunt the edges of differences among nations, not to sharpen them. The political, economic and social benefits of adequate and timely action for a better world order are only too apparent.

I wish you all success in your deliberations.

## **Statement by the Executive Secretary of CEPAL, Mr. Enrique V. Iglesias**

### **I. Central America and integration**

Nothing could be more fitting than to take advantage of this occasion, when the Commission is meeting for the first time in its history in a Central American country, to begin by referring to economic integration—a movement in which Central America has distinguished itself by playing a pioneering role, and which has enabled the CEPAL secretariat to enjoy a long and fruitful association with the Governments of this sub-region.

It naturally gives me great pleasure to recall that, at the fourth session of the Commission, held in Mexico City in June 1951, the delegations of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua expressed their Governments' interest in promoting the integration of their economies and the creation of wider markets, through trade in their commodities, co-ordination of their development plans and the establishment of enterprises in which all or some of them had an interest.

On that occasion, a request was placed before the Executive Secretary to extend to the Governments concerned the co-operation needed for the study

and implementation of such proposals, and "to study the means or plans for the progressive attainment of those objectives". In addition, the Economic Co-operation Committee was established as a consultative organ of CEPAL and a co-ordinating body for activities relating to economic integration in Central America.

The Committee met twelve times between 1952 and 1963, during which period studies and analyses were made with a view to laying the foundations on which Central American economic integration could be built up.

Towards the end of that period—to be precise, in the biennium 1960-1961—the Governments took courageous decisions in this field which definitively placed them in the forefront of the integration process throughout Latin America. In the short space of five years an almost perfect free-trade area was created, a common tariff for products of third countries was adopted and institutions and machinery were established to promote joint action within the framework of integrated economic development.

It would be difficult to assess at its full value the contribution made by integration to the economic development of each and every country in the region, in terms of their growth and the transformation of their economies. Suffice it to mention, by way of example, that the degree of industrialization in the sub-region rose from less than 14 per cent in 1960 to almost 19 per cent in 1975.

Undeniably, however, the very dynamics of the process brought weaknesses and obstacles to light. The evolution of the Central American Common Market —by far the most advanced integration movement in Latin America in the 1960s— reflected the difficulties which were beginning to affect other sub-regional integration processes as well.

Thus, in the course of this period we found that once an integration process like that of Central America has been set in motion it does not necessarily tend to expand and intensify. Instead, the possibly exaggerated emphasis placed in the past on commercial integration —in other words, the creation of free-trade areas— and the relative slackness in the joint promotion of projects of regional interest led to a geographical concentration of the benefits of integration in the relatively more industrialized countries which tended to weaken the dynamics of the process. In addition, integration was apparently unable —in Central America and still less elsewhere in Latin America— to make the expected contribution towards solving the main development problems with which countries were faced.

All this, together with the transformations and rapid changes in the international economy, suggests the advisability of revising the conceptual framework of economic integration so that it may effectively support the devel-

opment process the region will have to tackle in the next few years.

In this respect it is satisfying to note that Central America is still in the vanguard, having formulated two multiplex and simultaneous approaches whereby to strengthen its integration movement. The first, which is of a global nature and is to be embodied in a new treaty, is designed to promote long-term integration, by establishing the major objectives of the process and setting up the agencies and procedures which would make it possible to attain them. The second, which is more specific —and need not necessarily await the entry into force of the treaty— would consist in the short-term reactivation of the movement through the execution of concrete projects of regional interest.

I am also pleased to be able to state that CEPAL has continued to be associated with this revivifying process, primarily through the meeting held by the Economic Co-operation Committee in May 1975 and the meeting the Committee is to hold this week to evaluate the implementation of the decisions adopted on that earlier occasion.

Whatever Central America decides to do in order to revitalize its integration movement will have profound repercussions on the rest of Latin America, since today, as in the past, it is taking the lead both in ideas and in action in the field of integration.

I therefore wish the Central American countries every success in these new stages of the integration process and reiterate, once again, our keen desire to contribute to their efforts. In particular, our Mexico Office, now under the inspired direction of a distinguished Central American, Gert Rosenthal, will continue to be deeply involved, as Central Americans have been in the past, with this historic work on behalf of integrationist ideals.

## II. The great tasks of Latin American development

There are two main economic and social concerns in Latin America today, namely, how to satisfy the basic needs of the great masses who have not shared in the fruits of the development achieved in the last few decades, and how to place the region on a different and more advantageous footing in the international economy.

At the last meeting of this Commission (in Trinidad and Tobago, in 1975), in several other forums, and most recently in December 1976, when previewing the global outcome of the region's evolution in 1976, I have had occasion to make some basic points in these connexions.

As regards the first of the issues mentioned, I tried to show that the Latin American production system has undergone far-reaching changes in the post-war period, in both quantitative and qualitative terms, so that Latin America is today in a position to undertake tasks which in the past might have seemed over-ambitious but which have now become objectively possible.

The most important of these tasks, without the slightest doubt, is that of substantially relieving if not totally eradicating what is known as 'critical poverty', which affects, subject to varia-

tions in its intensity and in its national features, at least a third of the region's population.

With respect to the other issue – the insertion of Latin America in the world economy – I have tried to highlight the region's greater capacity to withstand and adapt to the repercussions of the international upheavals of recent years, which have still not ended. The existing situation, with the problems and opportunities it involves, must be appraised with eyes fully open to change and innovation – not as though it were a mere case of history repeating itself. Generally speaking, it entails envisaging what kind of 'new international order' would suit Latin America and how the region should fit into that context.

Our suggestions in relation to these vital issues might be construed – superficially – as being unjustifiably optimistic in face of the serious problems confronting our countries.

Forgive me, therefore, if I dwell at some length on each of these issues separately, obvious though the relationship may be between the transformation and social and economic potential of the production system and the characteristics of its external setting.

### A. *The development of the region's production potential*

#### *Economic expansion: the present situation and future prospects*

I do not think it is necessary to recall the details given in my statement in Trinidad and Tobago regarding the quantitative and qualitative changes which have taken place in Latin America since 1950.<sup>1</sup> It is enough to repeat a few important facts. Thus, for example, the regional product almost quadrupled between that year and 1974, reaching a size comparable with the corresponding figure for Europe in 1950, "when that region was already one of the most industrialized in the world and some of its larger countries were among the major economic powers".<sup>2</sup> More specifically, and with reference to one of the strategic sectors for development, I should like to remind you that during this same period production of machinery and equipment increased nine times over. Thus, whereas in 1950 approximately three-fifths of the demand for such goods was covered by imports, in 1974 the proportions had changed to such an extent that three-quarters of these needs were met by domestic production.

These data, together with other familiar facts of a similar kind, are solid proof of the development of the productive forces of Latin America. Moreover, with due caution it can be assumed that this expansion will continue in the immediate future and will raise the

region to heights much greater than those it has reached today, while at the same time significant changes will take place in the economic structure.

Let us look at a few future possibilities in this connexion.

If, for example, we take as our basis the average growth rates for such a long and varied period as that extending from 1960 to 1974, and if we assume that these rates will recur between the latter year and 1990, we shall note some substantial quantitative changes. For a better appreciation of these, they may be compared with the corresponding situations in the European Economic Community in 1970 (excluding the United Kingdom):

- The regional domestic product in 1990 would be a little over 560 000 million dollars. That is to say, it would be bigger than that of the EEC in 1970, which was roughly 500 000 million dollars;<sup>3</sup>
- Latin American industrial production would represent a value of some 165 000 million dollars — a figure only 10 per cent lower than that of 184 000 million dollars shown by the EEC in 1970. Thus, the new Latin American level would be more than three times as high as the value of the region's manufacturing output in 1974;<sup>4</sup>

<sup>3</sup> Dollars at 1970 prices, as in all the other estimates. The assumed average annual growth rate for the period was 6 per cent, which was that actually achieved between 1960 and 1974. The GDP of Latin America in 1974 was 222 000 million dollars.

<sup>1</sup> See *Latin America: The new regional and world setting*, Cuadernos de la CEPAL, N<sup>o</sup> 1, 1975.

<sup>2</sup> *Ibid.*, p. 18.

- The supply of electricity in 1990 would be very close to 800 000 million kwh, that is, much larger than the EEC supplies in 1970, which amounted to 606 000 million kwh;<sup>5</sup>
- The gross value of output of machinery and equipment in 1990 would be some 138 000 million dollars – a figure higher than that of 126 000 million dollars recorded in 1970 by the EEC.<sup>6</sup>

I hasten to admit that these comparisons are open to all kinds of reservations, one of the most important, of course, being that we are comparing Latin America with a group of countries which has in the aggregate a smaller population and a much higher per capita income.<sup>7</sup>

However, these reservations in no way invalidate my basic aim, which is to illustrate the great change that took place in the dimensions and structure of the region's economic system.

Does the rehearsal of these facts mean that we are ignoring or underestimating the objections of every kind that have been raised with reference to the patterns of Latin American development, in particular its industrialization process?

My answer is an emphatic No!

<sup>4</sup> The industrial growth rate for the period 1960-1974 was 7.3 per cent. The same rate was assumed for the period 1974-1990.

<sup>5</sup> The rate of expansion was 8.6 per cent in the period 1960-1974, and the same figure is assumed for 1974-1990.

<sup>6</sup> The growth rate for the period 1960-1974 was 11.2 per cent, which is also assumed for the period 1974-1990.

<sup>7</sup> In 1974 the population of the EEC was only a little over 200 million and that of Latin America some 315 million, while per capita income in the EEC was estimated at about 2 800 dollars, as against Latin America's 750 dollars (at 1970 prices).

Indeed, I would go even farther and say that we agree with most of the criticisms levelled at the regional set-up and its economic and social features.

#### *A critical review of Latin American experience*

The truth is that CEPAL, as many of its documents show,<sup>8</sup> has long been calling attention to the pitfalls, flaws and lacunae in the process of change which began or gained momentum in Latin America after the Great Depression and particularly from the Second World War onwards. But this did not prevent the Commission from becoming involved with the process in question and supporting its fundamental aims.

It was at the meetings of this Commission that stress was first laid on the limitations and dilemmas of import-substituting industrialization, and the need was urged to break down the watertight compartments of national markets in order to project their transformation into the regional and world contexts.

It was likewise at these meetings that initiatives were taken up to broaden and diversify the export base, thus pioneering action by the Third World to obtain fair treatment and ready access for their exports to the central economies.

Here, too, it was that emphasis was placed on the need for external co-operation and financing in order to secure an adequate flow of foreign funds and to step up investment and the transfer of technology, although at the same time attention was drawn to the risks

<sup>8</sup> Among the most recent, see *Problemas de la industrialización substitutiva* (Cuadernos de la CEPAL, N° 14), which contains a selection of CEPAL's expressions of opinion on the subject over the last twenty-five years.

attendant upon excessive or fruitless borrowing, and upon foreign control of national assets and decisions.

Neither were we Latin Americans indifferent to the glaring evidence of the inefficiency and waste which disorganized, parochial and over-protected industrialization can entail. In response, we did not postulate the establishment of a mythical market with perfect conditions of competition as the supreme means of deciding the allocation of resources, but rather advocated the disciplining and control of market forces through rational planning. Let me recall that this alternative has become one of the recurring themes of the current debate on economic policy in the industrialized capitalist countries, in several of which, moreover, it is already a long-standing practice.

Lastly, and most important of all, we have not forgotten that in the final analysis development can only be judged by the degree and manner in which the basic needs of the population are satisfied; and while it certainly is important to make a realistic appraisal of the social groups that take part and share in growth, never must we neglect those left out, who are unhappily so numerous. This has been the focus of CEPAL's work in the field of research, diagnosis and proposals relating to income distribution.

In short, the question I raised a moment ago may justifiably be answered in the negative. Objective recognition of the production potential built up in recent decades as a result of the region's development neither contradicts nor seeks to conceal the great shortcomings and frustrations which have accompanied the process or are inherited from the past.

Far from it. Our intention in stressing the magnitude and nature of this poten-

tial is by no means to rush to the region's defence, but rather to engage in constructive criticism.

In the first place, recognition of its existence is of obvious importance with respect to a controversy which has once again begun to rage of late on the subject of Latin American industrialization. Without going into details, it may be recalled that some arguments have been carried far beyond the analysis and verification of the negative features of the process, and have called in question its very *raison d'être*. Some have regretted that the open, liberal model of the primary-exporting economy has been abandoned, or have deplored the fact that Latin America has followed its present path instead of opting for patterns which are to be found in other regions.

These schools of thought appear to disregard the historical and spatial context of the problem.

Moreover, despite frustrations and disappointments, and sometimes excessive protectionism, Latin American industrialization is now a reality. And it is a reality that forms the basis for progress which has reached many social sectors.

*The elimination of critical poverty: a priority task now practicable*

Our intention to formulate positive criticism, however, is directed especially towards the attainment of another objective of more decisive significance, which is the natural corollary of the foregoing testimony to the production potential created by the regional effort.

I must repeat that if I have dwelt on its existence I have done so neither in a defensive spirit nor from a propensity to optimism, but because it enables me to reaffirm a point made in my statement

in Trinidad and Tobago: namely, *that this production potential is the condition which allows and obliges us to reach goals that may have been difficult or impossible to make for in the past but are so no longer. Today they are objectively and materially attainable.*

At the head of the list, as I indicated earlier, is the substantial alleviation or elimination, within a reasonable time, of the critical poverty in which a considerable proportion of the Latin American population still lives.

The new regional economic situation, the 'critical mass' accumulated, mean that this war on poverty can now be waged, as I shall go on to demonstrate. It must be waged for manifest reasons of justice: the deprived sectors of the population have borne the brunt of the arduous collective effort made in order to create the production potential.

Furthermore, concern for this problem currently forms the ethical or moral backdrop of a much wider conflictive dialogue, between the developed North and the developing South. What is being discussed both at the world and at the regional level is *if and how* it is possible to improve the living conditions of those who are excluded from the advances and benefits attendant on the revolution of technical progress.

It is worth while to bear in mind some relevant round figures at the world level, so as better to appreciate the specific situation of Latin America in this supremely important area.

The World Bank has been consistently concerning itself with this problem, thus contributing to the efforts made to identify and come really to grips with the situations of critical poverty confronting mankind.

Some unofficial estimates have been issued respecting the investment that

might be needed to bring about a significant improvement, within a decade, in the situation of the 750 million people (650 million in rural and the remainder in urban areas) whose per capita income is currently under 200 dollars a year.<sup>9</sup>

As may easily be foreseen, the investment required to provide this huge mass of people with acceptable minimum standards of nutrition, drinking water supplies, education, public health and urban housing is enormous. It is calculated at between 110 000 and 125 000 million dollars, or between 11 000 and 13 000 million dollars annually for a decade.

It should be noted that this covers only the limited and partial –although not unambitious– goal of establishing the infrastructure, both material and human (as in the case of teaching staff), on which to base a programme and with which to put it into effect. Thus no allowance is made for the sizable operating and maintenance costs stemming from the investment.

These vast sums appear in a different light, however, when it is recalled, for instance, that world expenditure on armaments *in a single year* –1975– amounted to some 300 000 million dollars. Many other comparisons may be drawn –with the total product of the developed countries, with the current level of investment or of specific forms of mass but non-essential consumption, etc. In every case the conclusion must be reached that the above requirements, while great, are within the domain of reality rather than utopian. I am speaking, of course, strictly from the angle of economic feasibility, and without consi-

<sup>9</sup> See Nahbub Ul Haq, *The Third World and the International Economic Order* (lectures delivered in Georgetown, Guyana, November 1975), Georgetown, Ministry of Foreign Affairs.

dering the political obstacles which may certainly constitute a major handicap. But this, I would emphasize, does not detract from the historic importance of the point I have made: *from the standpoint of the development of productive forces, it would seem that human society as a whole, irrespective of the barriers between nations and classes, has potentially passed beyond the threshold of what has been called the realm of necessity.*

This generalization is particularly true of a Third World region such as Latin America, whose per capita income and production potential are considerably higher than those of Asia or Africa.

#### *Income redistribution and development style*

To clinch this assertion it is worth recalling the conclusions reached in a recent study.<sup>10</sup>

If the annual growth rate were to remain the same as in the past—about 6 per cent—, the poorer half of the population of the region could satisfy its basic food and clothing needs within a decade if, by means of wage increases and/or social security benefits, its share of total income were raised from approximately 14 to 20 per cent.

*What would be the primary requisite for attaining this modest but vitally important goal?*

The share in total income of the top 10 per cent in the income scale would need to be reduced from 44 to 41 per cent, and that of the middle strata from 42 to 39 per cent. It should be noted that this would not prevent the *absolute*

income of these groups from rising during the period considered.

It may be asked, however, whether these estimates and others of the same kind are not somewhat naive. Do they not give a misleading impression of the scope and complexity of the undertaking?

Such possibilities and risks certainly do exist. We must therefore combine a realistic appreciation of what present circumstances have placed objectively or materially within our reach with a more detached and clear-sighted awareness of the major obstacles to attainment of the objectives considered viable. But this mental exercise must be accompanied by a passionate feeling of involvement with the task ahead.

While pondering these questions, I came across some apposite remarks by a leading authority on international development problems: Mr. Maurice Williams, Director of the OECD Development Assistance Committee. In a recent article he wrote:

“From years of working in development, I have found that one needs to have a cautious optimism and a towering impatience. Optimism, a belief in the prospect of social and human progress is what development is all about. Yet so much is wrong, people’s needs are so great and change for the better depends on constant effort. Consequently, a towering impatience with the slowness with which prospects for progress are realised is also necessary for development work.”<sup>11</sup>

<sup>10</sup> See Aníbal Pinto, “Styles of development in Latin America”, CEPAL Review, No 1, p. 125, table 11.

<sup>11</sup> See Maurice Williams, “The emerging new realism in North-South co-operation”, OECD Observer, No 84, November-December 1976.

*Cautious optimism. Towering impatience.* These are two fundamental ingredients in the approach to the issue we are considering.

I wish to repeat, then, that we should be the last to underestimate the tremendous difficulties of many kinds which lie between the objective possibility of reducing or eliminating critical poverty in the region and a policy to convert this potential feat into reality.

We have no wish to cherish fond illusions.

Indeed, we could not do so, for apart from the political unknowns affecting the issue—which it is not for me to analyse here—we do know that the undertaking involves much more than an old-fashioned redistribution operation in the so-called populist style.

As was stated long ago by the well-remembered Jorge Ahumada, it is not simply a question of building a few more dwellings, a few more schools and a few more hospitals, or of transferring part of the national income, through social services, to people whose basic needs remain unsatisfied.

Everything achieved through these channels is worthy and useful, but even in the best of circumstances it will be insufficient, particularly in the long-term perspective, and when the intention is to bring about *permanent, irreversible* and *cumulative* effects.

The endeavours referred to must be accompanied by others, just as strenuous and more complex, in order to transform the prevailing development style in such a way that the production system may be geared in greater measure to supplying the basic wants of the broad masses. The alternative—clearly undesirable—is that it should continue to give overwhelming

priority to meeting the increasingly varied demands of a minority which is striving to reproduce the consumption patterns found in the countries where average income levels are high.

It would be short-sighted to deny that there are a good many countries in which the numbers and proportions of their inhabitants incorporated in this process have risen over the past decade. But neither should we forget that a major part of the population was inevitably excluded from it, and that even in the case of some groups it has apparently benefited, it has taken place at the cost of a deterioration in essential consumption and services, both public and private.

What is needed, then, is a substantial change in the use made of the economic surplus, which is already considerable in Latin America, as witness the investment rates attained and the conspicuous and wasteful consumption observable in the region.

This reallocation of resources involves, first and foremost, a radical change in the conditions of work and productivity of the many who vegetate in activities as yet untouched or barely reached by technical progress. In many cases the process will mean shifting manpower from areas in which its presence is not justified to places where opportunities for better-paid and certainly more productive employment must be opened up.

It will be very difficult to initiate and subsequently consolidate this process if it is not at the same time supported and reinforced by progressive changes in the structure of income distribution. Especially, although not exclusively, in a market economy, a transformation of this kind is a *sine qua non* for achieving the advocated reallocation of resources.

*The responsibility of the State and the role of planning*

The magnitude and complexity of these tasks —which I am merely outlining in the most summary fashion— are such that no ideological significance can attach to the elementary conclusion that they can be tackled only with the decisive and enlightened participation and even leadership of official policy —that is, of the State— and that such participation necessarily calls for the use of some form of overall planning.

This conclusion does not stem from a doctrinaire urge, but from the very nature of the problems facing modern society, and particularly those of the kind encountered in our region. Such an assertion obviously does not contradict but rather reinforces the widespread concern displayed over the definition of the responsibilities of the State, its relations with domestic and foreign private enterprise, suitable planning methods, and other related subjects.

Indubitably, these are far from having been adequately clarified as yet. And the more comprehensive and demanding the objectives pursued, the more important any effort in this direction becomes.

To conclude this part of my statement —and aside from the legitimate reservations and objections which may be made with respect to my opinions in this connexion— I should like to reiterate my initial argument that the expansion of the region's productive potential makes it possible and indeed imperative to take action aimed at drastically reducing the critical poverty which offends the moral conscience of Latin America.

This may be an appropriate moment to recall some words of Alexis de Tocqueville which were written with reference to the French Revolution, but which aptly epitomize what many of us feel about the question now under discussion:

“Although patiently endured as long as it seems inevitable, suffering begins to be intolerable once men realize that it can be eliminated.”

The under-privileged have now awakened, and with good reason, to the fact that their condition not only must out also *can* be changed. It is unfair to shirk facing this truth; and it is unwise to underestimate the force implicit in this awareness.

**B. *The problems posed by the growth of the population and of the labour force***

The reasons for sponsoring a development policy whose central purpose is to satisfy the basic needs of the masses, and therefore to improve their conditions of employment and remuneration, are not solely ethical.

Facts and forecasts tell us quite clearly that unless we proceed in this

way we shall run into increasingly grave and conflictive problems. This becomes quite clear when we consider a subject which is closely linked with the one we have just discussed: namely, the challenges and problems stemming from the growth of the population and of the labour force.

*Population and labour force: a forward look*

Recent CEPAL studies made in connexion with the programme on development styles have estimated probable population and labour-force trends over the next few decades.

This is of course a controversial issue, which, moreover, varies markedly according to the particular conditions prevailing in individual countries.

I do not propose to discuss the conflicting views on the subject, but I do want to take as my starting-point an objective and non-controversial fact of vital importance for the matter which is of concern to us here.

This basic fact is very simple: *whatever the policies adopted in the future with respect to population growth in Latin America, the total number of inhabitants of the region will continue to increase rapidly up to and beyond the end of the century.*

Even assuming that there is a drastic fall in the rate of growth of the population —i.e., that it drops by half (from 2.9 per cent to 1.4 per cent) between 1970 and the end of the century— the population of Latin America would in any event number more than 500 million by the year 2000. Incidentally, if the 1970 rate of increase were maintained —which is admittedly improbable in view of the tendency towards a moderate decline in the rate— the total number of inhabitants is likely to reach 720 million by the year 2000.

Whatever the final outcome —and it will depend on a series of factors which cannot be examined here— this trend will certainly cast some doubt on the current notion of Latin America as an underpopulated region well-endowed with resources in relation to its popula-

tion, although its situation in this respect will continue to be relatively favourable in comparison with that of such high-density areas as India, Japan or even Western Europe itself.<sup>12</sup>

On the other hand, it is true that a population of the size indicated would represent a potential market which, taken as a whole, could serve as a broad base even for modern industries with large economies of scale.

The outlook for the labour force is even more striking. Owing to a number of factors, such as the high growth rates of the past few decades and the age structure of the population, the number of persons seeking employment will increase at an annual rate of 3 per cent, or slightly more, for several decades. In this respect, it should be noted, the differences between countries are less marked than they are in the case of the population as a whole. Estimates relating to a large part of the region (20 countries) indicate that the number of economically active inhabitants is likely to rise from about 97 million in 1975 to approximately 252 million in the year 2000.<sup>13</sup>

For purposes of comparison, it may be recalled that the rate of expansion of the labour force in the European countries between 1950 and 1970 was well below 1 per cent per annum, and that in some cases it even decreased in absolute terms. In Japan and the United States higher growth rates were recorded (2 per cent and 1.6 per cent, respectively), but

<sup>12</sup> In 1970, the population density in Latin America was 30 persons per square kilometre, as against 180 in India, 290 in Japan, 155 in Western Europe, 22 in the United States and 11 in the Soviet Union.

<sup>13</sup> See CEPAL, *Long-term trends and projections of Latin American economic development*, E/CEPAL/1027, March 1977.

they were considerably lower than those found in Latin America.<sup>14</sup>

*The challenge of providing productive employment*

The figures given show beyond all doubt that in the foreseeable future our region will not only have to increase its output substantially and continually in order to satisfy the needs of a growing population but will also have to create employment opportunities for an even more rapidly expanding labour force. It should be emphasized that the second requirement must be fulfilled if the first is to be met.

There is no need to call attention to the magnitude of this challenge. A little information on the increase in the labour force in some of the large industrialized countries has been given simply in order to illustrate the differences in historical situations in this respect and thus show how much harder in our countries is the task of productively absorbing the population increments. As has been said more than once, the problems of creating employment—which are difficult *per se* in the industrialized economies—would have been considerably greater if they had been compounded by labour force growth rates like Latin America's, which are several times higher.

This situation largely accounts for what has been termed the inadequacy of the regional system to generate the

necessary employment opportunities, and it cannot be disregarded in any study of the subject.

To cope with it, as we all know, two paramount and concomitant requisites need to be met: a faster growth rate and higher proportions of investment.

The region's performance in both respects has not been unsatisfactory, especially between the end of the 1960s and the beginning of the 1970s. Sustained rates of economic growth above 6 per cent a year, and coefficients of investment amounting to more than 20 per cent, are ample evidence of the fact.<sup>15</sup> To maintain and, as far as possible, intensify this trend is clearly essential.

However, the problem is not entirely one of tempos and rates! The means, however legitimate and necessary they may be, must not be confused with the ends.

Such confusion is the essential fault found with 'spurious developmentalism'. And there are few today who would not endorse the criticism, either in the central countries or, even more understandably, in the countries of the periphery.

The first objection has to do with a question that has already been considered, and which we have reiterated with some insistence: growth, however essential, is not enough; it is equally, or even more, important to decide *whom this growth is for*.

I shall not harp on this issue, but I will point out that it is inextricably bound up with another of the same kind: *how we should grow*, that is to say, the development style to be adopted.

If we take as our point of reference the difficult problem posed by the

<sup>14</sup> During the period indicated the annual growth rates of the labour force in the countries referred to were as follows: Austria, -0.4 per cent; Federal Republic of Germany, 0.9 per cent; Norway, 0.5 per cent; France, 0.4 per cent; United Kingdom, 0.5 per cent; Spain, 0.5 per cent; Italy, -0.2 per cent. Source: *ILO Yearbooks*, census data.

<sup>15</sup> See CEPAL, *Long-term trends and projections of Latin American economic development*, *op. cit.*

increase in the labour force, we can easily agree that its solution does not depend only on achieving satisfactory growth rates and adequate capital formation levels. These efforts must also lead to an apportionment of resources involving access to better income and productivity conditions for the *entire* active population—due allowance being made, of course, for differences inherent in the nature of the technical progress achieved or the global development strategy adopted.

In contrast, if the process does not follow these lines and is not supported by income redistribution policies, the spontaneous trend will be towards a familiar threefold concentration: in the modern sector, comprising the large enterprises (private—both domestic and foreign—and public); in the social groups linked to this sector; and in the areas and towns forming the focal points of that powerful centripetal movement.

I repeat that in many cases this form of growth has meant radical changes and notable advances, particularly towards establishing a far from negligible production potential. But it is also evident that it can hardly, within a reasonably short space of time, meet the requirements in respect of the basic needs of the majority and the productive absorption of the labour force.

#### *Where and how to absorb the labour force*

All the forecasts suggest that the tendency for the active population to move into industrial activities—in the broadest sense of the term—and into services will continue in the future. Latin America's experience in this regard is not at variance with the trends observable throughout the world, whatever the institutional system adopted.

But our own experiences in the past and others elsewhere—whether positive or frustrated—clearly show the dangers to be confronted and the conditions to be fulfilled.

The first factor to consider is that the relative or absolute decrease in the labour force in the primary sector must be accompanied by intensive dissemination of technical progress in these activities and particularly of techniques designed to increase the productivity of the land. Otherwise, rural poverty persists or increases, agricultural supply shortages are aggravated, and the exodus or expulsion of rural population to the cities may be accelerated to an excessive degree. Gradual changes in the structure of ownership would seem to be a necessary complement to this policy in most countries.

In so far as the objectives indicated are achieved, the trend towards the transfer of labour to other sectors will be moderated, but not halted. This relative retention of manpower will also mean increases in agricultural productivity and supply, and higher incomes for those who work in mining and agro-industry.

The second factor has to do with industrialization strategy, as industry-related activities will have a key role to play in the creation of employment opportunities.

In this area the main objectives would seem to be the priority development—in quantity and productivity—of branches connected with the satisfaction of essential needs; broadening of the supporting platform constituted by the basic industries producing capital goods and inputs; and the projection of these activities into the regional and world ambits. Naturally, these objectives will assume different forms and combinations in each country.

### *Metropolization and regional development*

Lastly —to touch only upon what I believe to be of paramount importance— there is the great challenge of urbanization, of the growth of the towns, where an increasing proportion of the population will go, or will remain, whether we like it or not.

I shall not attempt to cover all this very broad and complex field, but will confine myself to highlighting two subjects which are of particular concern to our countries.

One of them is what we might term the spectre of metropolization or the rise of the megalopolis. In varying degrees and with varying characteristics, this phenomenon, with all its serious and well-known implications, is looming up in a great many countries.

Although the trends towards over-concentration in the towns are likely to diminish in the future, as has occurred in the case of other huge cities of the industrial society, such as New York, London and Paris, this can by no means constitute any consolation or any justification of passivity in the face of such a situation.

The first and most general reason is that the consequences of the process are already too acute and harmful in terms of urban pollution, congestion and deterioration in many dimensions which are too well-known to need describing.

The second is that the process of metropolization represents a bottomless pit in that it absorbs increasingly copious resources, and their exponential growth, instead of solving the problems in view, reproduces them on an ever-larger scale. There is no doubt that the social opportunity cost of this investment is immense. These cumulative demands substantially reduce the margin of resources which

could be applied for other purposes with high social and economic productivity.

This is not the place to review the policies that aim at making a direct attack on urban hypertrophy. They pertain and are giving substance to specific disciplines concerned with the environment and human settlements, which are already being practised in many countries and which have been incorporated into the work of the United Nations.

However, I should like to note the fundamental importance in this respect of an approximation which, even if indirect, is of great efficacy as a medium- and long-term expedient: namely, the energetic and persevering implementation of policies designed to promote more balanced regional development.

Both Latin American and extra-regional experience is eloquent in this connexion. In those of our countries whose historical evolution and/or deliberate policies have led to the proliferation of dynamic urban centres, attempts to counteract impulses towards exaggerated monocentricism have been more viable. This has also made it possible to absorb the demand for jobs in a more balanced fashion and at a lower cost.

In this connexion I will venture a reminder that both CEPAL and ILPES have contributed significantly to the knowledge of matters connected with regional diversification.

### *Opportunities in the services sector*

Lastly, I should like to refer to another much-debated subject of obvious significance for the question of employment, namely, the role of the services sector.

For many and varied reasons, which have already been extensively analysed, these activities have expanded consider-

ably and prematurely, as was pointed out some time ago in CEPAL studies. In contrast to what occurred in the industrialized economies, the phenomenon did not arise as a natural consequence of the dissemination and intensity of technical progress in the goods-producing sectors but, on the contrary, as a result of the inadequacy of that process. As was once said, for us it is not so much a symptom of development as an indicator of under-development.

At all events, it constitutes a situation built up over the years which is difficult to change radically, although more vigorous and better-oriented growth may alter the distribution of the labour force in the future.

Even with these limitations, there is indubitably broad scope for action to bring about internal changes in employment in the services sector, in the sense of increasing the more skilled or socially meaningful occupations in preference to those which only represent forms of disguised unemployment.

Urban development itself, of course, entails a greatly increasing number of jobs in both the public and the private sectors, which can be filled by means of this qualitative change in the structure of

services. Thus, what today may appear to be a burden, tomorrow may prove to be of unquestionable value.

Given that investment per employed person is much lower than in other sectors, the above process depends primarily on a systematic mass effort in the field of education and training.

Once again it should be noted that there is nothing utopian about this prospect. In fact, it corresponds to what has actually occurred, both in the developed and in some of the developing countries. Among the latter there are striking examples of what can be achieved—in relation both to the major goals of the community and to the specific objective of absorbing labour—by giving priority to the sustained expansion of the educational and health services, as well as those concerned with recreation, sport and culture, conservation and security, and many others of similar utility.

In short, while the challenge of the employment problem is immense, there seem to be clear possibilities of confronting it if it is placed in the context of a development style whose primary goal is the satisfaction of the cardinal needs of society.

### C. *The external economic relations of Latin America*

I remarked earlier that a second major issue raised by the Latin American economic situation has its origins in the nature of the region's links with and position in the international economy. I wish, therefore, to review briefly the problems confronting us today and the objectives and tasks relating to the establishment of a New International Economic Order.

#### *Improvement in the defensive capacity of the Latin American economy*

First, I should like to refer to my initial assertion that Latin America has shown in recent years a greater capacity than in the past to face an external crisis of such intensity and duration as that which is still continuing, somewhat abated but as yet unresolved.

The unquestionable recorded facts are that in 1974 Latin America was still achieving vigorous growth while the central economies were sliding towards the worst and most extended recession since the Great Depression of the 1930s; that in 1975 the total product of the region increased once again—although at a considerably lower rate—, while in the industrialized countries the product fell that year in absolute terms; and that in 1976, in the great majority of Latin American countries, there was yet another boom in economic activity.

Of course, this does not mean that the economic evolution of our countries has become independent of that of the central economies, whose contraction during the recent recession was partly due to deliberate economic policy designed to restore external equilibrium and to curb inflation.

However, neither can there be any doubt that the recent performance of the economies of the region has contrasted markedly with the much more unfavourable results they recorded in past world economic crises which were of less intensity and shorter duration than that of 1974-1976.

I wish, nevertheless, to stress that my postulate has limited connotations. First, it rests on an irrefutable contrast between our countries' critical vulnerability in the past and their clearly different position in that respect at present. Secondly, it refers to a limited and specific experience—to what happened between 1974 and 1976—in connexion with a specific external problem. It does not, therefore, imply any forecast of what might occur at other times and in other circumstances.

This clarification, however, does not detract from the importance of the fact in question, which in my opinion is considerable.

To what factors should we attribute this improvement in the region's capacity for adapting itself to meet external challenges?

In my press conference last December I cited what I thought to be the chief of them, and I hope you will bear with me if I outline them briefly again. They are as follows:

- The greater structural solidity of the economies of the region, due in the main to the diversification of its production system by virtue of industrialization;
- The more diversified composition of exports and, in particular, the increase in exports of manufactures;
- The domestic potential for producing intermediate and capital goods which could previously be obtained only through imports;
- The greater access to international financing, especially of a private nature, even at times of acute disequilibrium in the balance of payments of some countries;
- The limited, but significant, transformation of agriculture, and particularly of an appreciably dynamic modernized sector.

Furthermore, there is the fact—just as significant as the aspects mentioned—that in most cases Latin American economic policies have taken pains to reconcile the balancing of external accounts with the objectives of maintaining the growth rate and level of employment and controlling inflation. Naturally, these purposes have not all been fulfilled simultaneously or to the desired extent, but there have rarely been deviations which have jeopardized the general policy scheme. This undoubtedly testifies to the greater maturity attained by the decision-making and technical groups in the global concept of

the task that economic policy implies and in the management of its various instruments.

Does this mean that Latin America has overcome its main problems in relation to the external sector?

Most certainly not! This indisputable reality is not in contradiction with the fact that old weaknesses persist, new ones have emerged and very serious uncertainties have arisen regarding the incorporation of the region into the external scenario that is taking shape.

In considering these questions it is useful to bear in mind some general aspects that are indubitably of supreme importance.

One of these is linked with what has been called the 'internationalization' of the Latin American economy.

I shall try, then, first of all to present concisely some of the main background material that should be taken into account when analysing this process, and next to consider, equally briefly, the problems and tasks deriving from it.

#### *The internationalization of the Latin American economy*

Because of the rapid expansion of commercial and financial transactions since the closing years of the past decade, this phenomenon has been identified with the increasing openness of our economies, i.e., with a development of the international division of labour in relations between Latin America and the rest of the world, just as has occurred in other areas, and particularly in the case of the central and the socialist economies.

While this trade and financial expansion of recent years certainly did take place, it diminishes in significance and assumes a different guise if it is viewed in

a longer-term perspective and internationalization is considered firstly from the angle of foreign trade, then from that of external financing, and lastly from that of the role played by the transnational corporations.

#### *Internationalization from the angle of foreign trade*

Let us begin with a definite fact: in recent years Latin America has achieved a praiseworthy degree of openness to the exterior which means that it has finally set out along the road to an industrial export trade, in some cases with notable success.

On the other hand, consideration of export and import coefficients in relation to the region's total product at the beginning of the 1950s, i.e., more than 25 years ago, leads to the conclusion that they were higher than in 1972-1974, the recent phase of maximum import-export expansion, since the coefficient of these transactions, taken together, amounted to 13.3 per cent of the regional product in 1950-1952 and only 10.3 per cent in 1972-1974. This decrease in the degree of openness to external markets was not due to a steady downward trend between the two periods considered, however, but reflects the influence of two clearly differentiated phases. In the first of these — which lasted until about 1967-1968 — the share of foreign trade in the product fell more or less continuously. This declining trend was subsequently reversed, but the recovery was not sufficient to bring about a return to the levels of the early 1950s.

It may be noted in passing that this trend obtained in most of the large and medium-sized countries, with varying degrees of intensity, but affecting Brazil — with its dynamic openness to the exte-

rior during the current decade— as well as Argentina and Mexico, Colombia as well as Peru. In contrast, it by-passed the Central American countries as a whole, together with a few South American economies, as their export and import coefficients were higher in the 1970s than at the beginning of the 1950s.

To sum up, then, from the angle of trade transactions the so-called ‘internationalization’ of the Latin American economy is not in evidence throughout the region.

This phenomenon can be attributed to various factors.

The first and most obvious of these is that Latin American exports did not keep up with the growth of world demand for raw materials and foods. While the latter increased by just over 4 per cent a year between the beginning of the 1950s and the mid-1970s, the volume of Latin American exports of primary commodities grew at an annual rate of only 3.8 per cent. Contributory causes were the greater absorption of such products by domestic demand, the return of traditional suppliers to the world market after the Second World War and the appearance of new suppliers, and last, but not least, the scant emphasis generally placed by economic policies in the 1950s and part of the 1960s on the expansion of exports of raw materials and foodstuffs.

Another obvious fact is that until about 1965 the domestic product of the region increased more rapidly than the volume of trade. Although, as already mentioned, the rate of expansion of the latter subsequently rose, the growth rate of the product did so too, albeit to a lesser extent.

Primarily, however, the trend described stemmed from the far-reaching change in the structure of world trade.

The share of manufactures climbed from 44 per cent of the total in 1950 to more than 63 per cent in 1973 (that is, before the substantial rise in the price of petroleum), while the proportion of world exports represented by food and raw materials fell from 46 per cent to 24 per cent over the same period.<sup>16</sup>

These are unquestionably radical changes, which, while accounting for the increase in the industrialized countries’ share in world trade, at the same time constitute the fundamental cause of the decline in the proportion corresponding to those regions and countries which, for various reasons, could not keep up with the process to the same extent.

As regards Latin America, the increase in industrial exports (whose contribution to total exports rose from around 3 per cent at the beginning of the 1950s to some 15 per cent in recent years) was not sufficient to avert the reduction of the region’s share in international trade.

#### *The other and more problematical form of internationalization*

Although the development of trade transactions does not confirm some of the assumptions made about the internationalization of the Latin American economy, it is none the less true that the term can justifiably be applied in other connexions, although in doing so we find ourselves on thornier and more contentious ground.

Indubitably, Latin America has become ‘internationalized’ with respect to its financial ties and to foreign participation in the ownership and manage-

<sup>16</sup> See CEPAL, *The economic and social development and external relations of Latin America*, E/CEPAL/1024.

ment of a considerable proportion of what are among the region's most dynamic economic assets.

A clear sign of the first of these phenomena is to be seen in the considerable variations in the deficits on current account and in the amounts of the external debt that correspond to the non-oil-exporting countries. The average balance-of-payments deficit on current account of these countries rose from just over 1 500 million dollars a year in 1965-1970 to a little over 4 000 million dollars a year in 1971-1973, jumping to nearly 14 000 million in 1974-1976.

For the countries in question, the officially guaranteed external debt (not including commitments with the International Monetary Fund or loans for terms of less than one year) increased from 8 700 million dollars in 1965 to 42 000 million in 1975. Credit provided by private international banks, for its part, soared from some 2 500 million dollars in 1965 to about 25 000 million in 1975, and continued to rise rapidly in 1976, exceeding 30 000 million dollars by the middle of the year.

In short, all in all the region's total external debt amounted to over 70 000 million dollars by 1976. It is worth recalling that in 1969-1970 the corresponding figure was little more than 23 000 million.<sup>17</sup>

The magnitude of these figures and the implied differences from comparatively recent situations speak for themselves, and have rightly aroused concern both within Latin America and abroad.

To assess the position properly, however, a number of important circumstances must be taken into account.

<sup>17</sup> See CEPAL, *The economic and social development and external relations of Latin America*, *op. cit.*

One of these is the difference in the situations of the individual countries, above all where the oil-exporting as against the non-oil-exporting countries are concerned. Within the latter group, too, the disparities are substantial, so that the average figures for the region as a whole are of only relative validity. Even so, it is useful to note that neither the percentage relation of the external debt to the total product nor that of interest and amortization payments to the value of exports has risen excessively in the last few years.<sup>18</sup>

Another factor to bear in mind is that in several countries, and particularly in some that carry great weight in the area, where the debt grew most rapidly, the trend followed was largely determined by their effort to maintain import levels and even build up stocks in the unsettled years of 1973-1975. Generally speaking, this led to a rise in the rate of investment and external saving, which unquestionably helped to lessen the effects of the fall in external demand on growth rates. In other words, the higher level of external indebtedness was an alternative to the orthodox solution of seeking external equilibrium by restricting domestic development.

In addition, due importance must be attached to the fact that this greater flow of credit not only represented an example of the recycling of the petrodollar surpluses to the region, but also did much to stimulate the exports of the industrialized economies, and helped them to redress their balance-of-payments situations.

<sup>18</sup> The first of these relations was about 18 per cent in 1974-1975 (the same as at the beginning of the decade), while the second rose from roughly 23 per cent in 1965-1973 to 28 per cent in 1975. See CEPAL, *The economic and social development and external relations of Latin America*, *op. cit.*, tables 19 and 20.

*Internationalization and the transnational corporations*

Another unmistakable sign of internationalization in Latin America is the presence and growth of transnational corporations. This has meant, among other things, a substantial enlargement of the area of foreign ownership within our national systems and the creation of links of dependency between much of the productive, commercial and financial activity of the countries and a matrix of big corporations whose behaviour is governed by a world outlook.

A few figures will suffice to give a rough picture of their present strength in the regional economy.

According to a recent study, in 1975 the total value of sales in Latin America by United States affiliates amounted to 57 000 million dollars.<sup>19</sup> Taking into account the sales of European and Japanese subsidiaries – whose share has risen appreciably in recent years – the total may have reached 80 000 million dollars, almost double the value of Latin American exports in that year.

*Latin America's new external relations: uncertainties and future tasks*

Given these factual aspects of the internationalization process, the question arises of what we can and must do in face of them: a question which is also closely linked with the positions Latin America must adopt in relation to the features of the New International Economic Order.

Let us therefore begin by studying various aspects of foreign trade policies, and then go on to discuss other questions

<sup>19</sup> See *Survey of Current Business*, February 1977.

arising in connexion with external financing and the transnational corporations.

*Problems and objectives of external trade policies*

As I have already noted, despite the spell of prosperity in Latin America's foreign trade which began in the second half of the last decade and came to its peak in the period 1972-1974, the share of external trade in the region's aggregate product was nevertheless smaller during that period than at the beginning of the 1950s.

This relative stagnation of the degree of openness to the outside world over such a long space of time clearly brings out one of the most striking distortions or contradictions in regional development. It derives from the contrast between the changes in the *overall structure of production* and those that took place in the *structure of foreign trade* and particularly of exports. Whereas in the former the changes were profound, and reveal a substantial modification of the 'internal division of labour' as a result of industrialization, in the latter the broad lines of the primary-exporter economy – in other words, of what Dr. Prebisch used to call the 'outworn scheme' of the international division of labour – are still maintained.

Generally speaking, this asymmetry means that the Latin American economy is still not reaping all the benefits inherent in the progress and modification of the international division of labour, as the dynamic economies of the capitalist and socialist worlds have done.

From another point of view, more specific and more significant for everyday economic life, the distortion in question is reflected in another well-known feature, namely, the asymmetry between

the dynamics of exports and that of imports. This aspect of the problem has been brought out by CEPAL from the time of its earliest studies.

The position is that the dynamics of exports is influenced by a number of circumstances, ranging from the lower income-elasticity of demand for most primary commodities to the restrictions hindering their access to the central economies. Demand for imports, in contrast, is spurred by other factors which include the nature of Latin American development itself, and the higher income-elasticity of demand for goods which incorporate spearhead technology or are associated with the spending of the higher-income groups.

In practice, this distortion —underlying which is the structural asymmetry to which I referred before— makes itself felt in the long-standing tendency for import demand (in normal development conditions, unaffected by restrictive policies) to outstrip demand for exports. This adversely affects the trade balance and, as an all-too-familiar corollary, deficits on current account and the problems of indebtedness either make their appearance or grow worse.

These aspects of the situation testify to the serious deficiencies from which the Latin American trade system suffers in its dynamics and in its very structure. At the same time, they point to the key tasks incumbent upon external trade policy in our countries.

Naturally, on this occasion I can only put forward a few basic ideas respecting trade policy. Before doing so, however, I should like to stress that any success the Latin American countries may have in overcoming the handicaps affecting their external trade will not only depend on the rationality and coherence of their economic policy but

will also be conditioned decisively by the speed with which progress is made towards the establishment of a new international economic order and by the specific forms it takes.

Leaving aside for the time being these aspects of the problem —I shall deal with them in the final part of this address— I should like first of all to consider some major questions linked to the development of exports.

It seems obvious, of course, that the real possibilities of a genuine 'internationalization' of trade —in the sense of taking greater advantage of the benefits of the international division of labour— will increasingly depend upon the degree of dynamism that can be infused into industrial exports. Everything suggests that trade in such products will continue to grow more rapidly than aggregate primary commodity trade. To some extent, then, the progressive 'opening outward' of the economy and the maintenance or enlargement of Latin America's share of world trade are synonymous with, and a consequence of, the results achieved in that field.

Latin America has made steady progress in this area during the past decade, and as a result most of the countries of the region have considerably augmented and diversified their exports of manufactures.

Despite this sizable increase in exports of industrial products in recent years, it must be remembered that sales of primary commodities still represent about 85 per cent of total Latin American exports. Furthermore, the range of commodities exported by the countries of the region today is much wider and more diversified than in the past.

These are fundamental and decisive circumstances. Undeniably, the performance of total Latin American exports

will continue to depend for quite a long time on the course followed by sales of raw materials and foodstuffs, because of their great preponderance in the whole. The maintenance of domestic policies which do not discriminate against the production and/or export of primary goods but, on the contrary, promote their expansion and diversification is consequently, in most of our economies, an essential requisite for the success of a programme aimed at overcoming external restrictions.

Together with these requirements of an internal nature, however, there are others of equal importance which can only be met if the Latin American countries co-ordinate their action and a decided spirit of co-operation prevails in the international economic community. Such a spirit is essential, for example, in order to reach agreements designed to diminish the marked and persistent instability in the international prices of primary commodities.

Concerted action by the Latin American countries, in its turn, is essential in order to ensure that their exports of raw materials and food are not subjected to discriminatory treatment on the large markets of the central countries. I must confess, however, that in this latter respect we cannot speak uninhibitedly. We demand that the centres should eliminate obstacles, but, except in a few cases, we have not been able to achieve this extensively and decisively in our own intra-regional trade. The boom in exports of Latin American manufactures to the centres during the final years of the protracted spell of prosperity which the latter enjoyed during the post-war period perhaps created the illusion that the only true way of escape from the external restrictions on our economies lay in that direction.

Nothing could be further from my mind than to underestimate the decisive importance of this increase in Latin American sales of industrial products to the central countries. However, when evaluating the prospects of these exports, it must be remembered that there are great uncertainties regarding their growth in the next few years and also in the more distant future.

This is one of the reasons why we should not continue to neglect the great potential of intra-regional trade, which would make so valuable a contribution to solving the ever-latent problem of the external bottleneck. This potential is particularly important in the case of the dynamic industries which are indispensable for securing more vigorous and more autonomous development. Furthermore, the intensification of reciprocal trade, far from operating to the detriment of fuller opening-up to the world market, would tend to facilitate this after a time, since it would initially provide a broader market than the national one and thus make it possible to establish or expand industries which require larger scales of production if they are to be internationally competitive.

In addition, another priority objective is indubitably the diversification of our markets, for this would be a further element that would help to reduce the external vulnerability of the economies of the region. Accordingly, the important traditional trade, financial and investment links with the United States and the countries of the European Economic Community should be reinforced. It is also necessary that the region should continue its policy of expanding and intensifying its relations with the socialist countries. Secretariat programmes now under way with co-operation agencies in the socialist area

are pointing in this direction. We have also been stressing the need to strengthen our links with Japan. Lastly, we should deepen and extend the relations between Latin America and Canada. This country forms part of our regional community, and has been carrying out ambitious programmes of regional interchange and co-operation with exemplary determination and farsightedness.

#### *Reservations in respect of opening outwards*

Lastly, I should like to make two additional observations on export policy. The first concerns the need to make an adequate evaluation of the costs and benefits of the expansion of exports in order to ensure its efficiency. It would be desirable not to repeat in this sphere excesses such as formerly occurred in the import substitution process. As is well known, one of the legitimate criticisms of the process in question is that it was carried out in certain sectors and periods with the aid of over-protection, which in some cases led to an inefficient allocation of resources. Acceptance of this justified reservation regarding that feature of import-substituting industrialization should not, however, lead us to swing from import substitution at any cost to the promotion of exports at any cost. In other words, the argument relating to the distorting effect of a tariff structure with excessively high and heterogeneous rates is equally applicable to a system of excessive export subsidies.

My second observation relates to another aspect of the growth of exports and, more generally, of the greater openness of the economy. Obviously, in so far as exports expand rapidly and the export coefficient rises, imports of goods

and services and the import coefficient will also tend to increase.

Nevertheless, both for the rate of economic growth and, above all, for the development style or model, the *structure* or composition of the new imports is decisive. To put it in extreme terms: the greater capacity to import can be used either to purchase the machinery and equipment necessary to broaden the production base and raise the level of employment in the economy, or to bring in imports of luxury consumer goods which are only within the means of very small groups of the population.

The economic, and in particular the ethical and social significance of these two options is very different, of course; undoubtedly, too, intermediate situations arise in practice. It does, however, seem legitimate and necessary to ask whether some of our countries which have been successful in boosting their exports have taken sufficient advantage of the possibilities thus opened up for strengthening and diversifying the economy's production capacity and satisfying the needs of the majority sectors.

I fear that in not a few such situations this has not been the case, and the progress made in opening outward has been linked, in reality – and in the consciousness of large groups – with an intensification of the already glaring differences between the consumption patterns and life styles of the high-income strata and those of the underprivileged sectors of the population.

There have been exceptions, of course, and – much more important – this is in no way an inevitable consequence of a progressive opening-up of the economy. Needless to say, whether the greater capacity to import is used to promote development and social justice

or spent on non-essential consumption for the benefit of only a few ultimately depends on the capacity for domestic saving and the degree of equality of income distribution. This means that if full advantage is to be taken of the opportunities offered by the growth of exports for furthering economic and social development, it is indispensable to increase domestic saving likewise and to make income distribution more equitable.

Let there be no misunderstanding: these remarks on some of the adverse consequences which may stem at times from the expansion of exports are not arguments in favour of abandoning this course. On the contrary, I am firmly convinced that unless Latin America succeeds in steadily boosting its exports, it will have difficulty in achieving rapid and continuous economic growth. And this, I am also convinced, is an essential prerequisite—although of course not the only one nor sufficient in itself—for securing a significant improvement in the well-being of the groups which until now have not received an equitable share in the fruits of development.

My purpose in putting forward these views is to draw attention once again to *how* growth occurs and, above all, *for whom*: two aspects of the question which, as I have already pointed out, are closely and indissolubly linked with the development style or model followed and must be constantly borne in mind if economic growth is to be accompanied by greater social justice.

*External financing and transnational corporations: queries and suggestions*

I have already spoken of the nature and magnitude of the situation created by the new forms of external financing and by the presence of the transnational

corporations, which constitute the most obvious manifestation of the 'internationalization' of our economies. Although the two phenomena are closely linked, I shall consider them separately for the sake of clarity.

With regard to the first question, it is clear that future developments will depend mainly on the degree and way in which changes occur in the structure and dynamics of the export and import flows within the framework I have just sketched out.

The problems of financing and external indebtedness cannot be considered statically, but must be viewed in a dynamic context, together with the future evolution of the foreign trade of the countries of the region. If exports are growing dynamically and wise policies are being applied as regards the growth of imports, then the significance of a relatively high external debt and the needs for international co-operation in respect of financing will not be the same as in cases where the Latin American countries experience difficulties in achieving a favourable trade performance. In any event, however, international co-operation in the financial field is indispensable.

A few comments are also called for on some important specific aspects of our recent experience.

Although the role played by international private credit in alleviating the balance-of-payments troubles of recent times should not of course be underestimated, it is equally clear that the characteristics and current high level of participation of such loans raise questions which warrant reflexion.

The main problem concerns the compatibility of the normally accepted practices of private banks with the needs which external financing should satisfy

from the standpoint of development policies. This is a broad and complex subject to which I cannot do justice in the present statement. It may be asked, however, whether it is not necessary and possible to achieve adequate harmonization of these two points of view.

Thus a very delicate and potentially conflictive situation seems likely to arise unless efforts are made in good time to devise satisfactory compromise formulas that will protect and reconcile the legitimate interests of the parties involved.

Beyond this problem looms up another of a general character, to which we have long been drawing attention. Those that are considered to be 'middle-income' countries or areas have relatively little access to the sources of multilateral credit, and virtually none at all to concessional treatment.

I shall refer to this subject later on, but I should like to put forward two considerations here and now. First, this is one of the points that are of vital interest to Latin America in the reorganization of institutions and practices which the New International Economic Order is bound to involve. Secondly, stress must be laid on Latin America's need to continue being able to obtain financing from official sources, both national and international. This does not of course imply any failure to recognize the principle of justice which underlies the new orientation of the official financial institutions towards assigning a greater proportion of their resources to other Third World nations whose level of development is lower than Latin America's. Nor does it signify any underestimation of the contribution which has been and must continue to be made by private credit and investment.

Unquestionably, however, the region cannot come to depend entirely on these sources for its external financing. This is even more evident in the case of the smaller Latin American countries and those at an earlier stage of economic development, for which access to official sources of financing and 'concessional' loans is still a factor that determines their possibilities of achieving a higher and more sustained growth rate.

Lastly, I should like to revert to an aspect of the external indebtedness question which seems to me to be of fundamental importance: namely, the balance that must be kept between the amount and growth of the external debt and the value and rate of expansion of exports.

As I have already had occasion to mention, the aggregate size of Latin America's external debt has been increasing rapidly of late. Although this increase has to a considerable extent reflected the influence of world inflation in recent years, a rate has clearly been reached which would be difficult to maintain and which it would probably be wise to try to reduce.

Patently, however, the urgency and priority of this task are closely linked with the intensity of export growth and the efficiency of import substitution. These will be the final determinants of the extent to which it will be possible to provide for regular and punctual debt servicing without the necessity of deliberately restricting the rate of growth. Consequently, this is another extremely important reason why, in my view, the countries of the region should in the immediate future assign high priority to a strategy aimed, on the one hand, at systematically increasing and diversifying exports and, on the other, at ensuring efficient import substitution.

### *The need for a code of conduct*

As regards transnational corporations, it is common knowledge that their own dynamism and their considerable influence on the operation and structure of production systems has made it essential to clarify the relations between them and the host countries.

In the course of time a consensus of public opinion on the subject has taken shape, in which the official authorities of the host countries also participate, in view of the obvious repercussions which the activities of such corporations have on variables as vitally important as the balance of payments, external monetary flows, the employment situation and others of the same nature.

Of great advantage in tackling this problem today is the unquestionable progress that has been made in many Latin American countries in respect of their bargaining capacity *vis-à-vis* the transnational corporations. The greater integration of these corporations in the national economies—inasmuch as the bulk of their operations are carried out

with a view to the domestic market—places most of them in a position considerably different from that of the big primary export enterprises which dominated the scene in the past.

At all events, there are few who question the need to go farther towards defining, at the national, regional and world levels, operative codes of conduct whereby the governments and the transnational corporations can be guided and their legitimate interests harmonized.

Hence there springs up naturally, once again, another topic and objective proper to the formulation of the New International Economic Order. Indubitably, to the extent that this goal is successfully attained, the disadvantages and risks of the contemporary trend towards 'internationalization' will diminish and the favourable potential which the transnational corporations can offer will be developed.

Let us now pass on to deal for a few moments with the problems of the New International Economic Order and the special interest of the region in its objectives and patterns.

## III. The New International Economic Order

The 1970s provided a clear demonstration that the international economic system constructed on the bases established at Bretton Woods, after the Second World War, had run into a crisis. Order among a few had progressively developed into disorder for the many. This is not the place to enter into consideration of the political and economic factors behind this phenomenon, nor to describe once again how that order, which provided the framework for one of the most dynamic

phases in the economic development of the industrialized countries, also led to an accentuation of the disparities among the countries of the world, so that the gap between the rich and poor nations, far from narrowing, actually widened.

It is, however, important to show how the collapse of the international economic system has triggered unprecedented reactions and activities.

On the one hand, the recollection of the hardships of the world crisis in the

1930s, and a greater sensitiveness to social problems, have induced the major centres to adopt economic measures aimed at minimizing the social cost and averting acute depressions, whose uncontrollable economic and political repercussions would have affected a large part of the world. At the same time, the international community has awakened to consciousness of the new forms of interdependence among nations. As a result, a movement has begun—slow as yet, but promising—towards the construction of a new international economic order. The Special Sessions of the United Nations, the Paris Dialogue, the fourth session of UNCTAD and many other world forums held during the past five years to analyse some of the major topics of concern to mankind confirm the existence of this greater critical awareness and a sensitivity more receptive to the urgent necessity of establishing a system of international relations based on new principles, institutions and practices.

I am not among those who believe that all the evils of underdevelopment derive from the pattern of international relations between the rich and poor countries. Anyone who held that view would be turning a blind eye to the profound injustices which still persist in our countries and which are rooted in our own environment. Neither should it be overlooked, however, that international relations have habitually developed as a function of the interests of the more powerful countries, and for the benefit of their own nationals.

The aforesaid critical awareness of the historic juncture through which the international community is passing originates from precisely this situation, and it is responsible for the mounting demand that principles should be established on which to base a different

system of international relations, more conducive to greater equality of opportunities for all nations.

Two facts improve the prospects for this movement towards a new international economic order.

In the first place, the developing world has repeatedly presented a united front in support of common and responsible positions. Despite many differences of all kinds, despite the disparate effects of the international economic situation on the developing countries, despite their varying degrees of economic development, the nations of the Third World have maintained a necessary and commendable unity.

So important a circumstance should be neither overlooked nor underestimated, for without this unity, international negotiations between countries of such unequal economic and political power would be doomed to failure and would disappoint the legitimate expectations of the weaker countries.

In fairness, however, reference should also be made to another factor which inspires fresh hopes. There are certain industrialized countries where new attitudes are beginning to develop, and even to prevail, in some circles of opinion and in their governments. They are making an effort to grasp the problems of the developing countries, and are taking up positions that are more sympathetic and hence more conducive to a better mutual understanding. These attitudes constitute what has come to be called in the industrialized nations 'a new realism'.

Are they perhaps the product of increased awareness of the closer interdependence which now exists between nations and which became clearly apparent during the recent economic crisis? Or do they perhaps derive from

an enlightened realization that there will be no lasting peace in the world as long as international economic relations are still marred by the vast inequalities of opportunity which characterize them to-day?

Whatever the reasons underlying this new willingness to engage in international dialogue, it is to be welcomed. The limited but useful measures that the international community has adopted to palliate through its resources and action the situation of the countries most seriously affected by the recent world economic crisis should be appreciated as a foretaste of what is to come.

#### *Priority objectives of the New International Economic Order*

What do the nations expect from the New International Economic Order?

I will not deal in depth here with a subject which has already been so clearly and eloquently expounded by the Secretary-General of the United Nations at this same meeting. Let me simply say that the search for a new order must be conducted at several levels and comprise more than one stage.

The Seventh Special Session of the United Nations has provided us with a frame of reference both for the stages and for the levels required. This new order calls for a series of measures and agreements on the part of the world community that will enable structural changes to be made in international economic relations and will permit of fairer distribution and greater equality of opportunity for all countries.

Radical changes will have to materialize in the final stage of this process, ranging from improved distribution of trade profits, credit and international liquidity and disciplining of the power of

transnational corporations to international control over the communal assets of mankind. These are civilization's collective patrimony, and access to them is a legitimate aspiration of those most in need.

A continuous series of negotiations, gradually reflected in concrete and effective advances, is a *sine qua non* for arriving at this new system of international relations.

The attitude of the developed countries is vital to the success of such a process. But the full participation of the developing countries is also indispensable; and this in turn requires that the negotiation machinery be made more democratic, in which connexion the United Nations, as the most important political forum in the world, must play an essential role.

So far as making the movement towards a new economic order a positive reality is concerned, the next few months will see some decisive meetings. The Paris and UNCTAD negotiations must reach substantive points of agreement. If these meetings are successful—as we all hope—the gates will be thrown open for the negotiating process to continue in the United Nations and at other international gatherings. Conversely, if nothing comes of them, frustration may grow and there may ensue a period of sterile confrontations which nobody wants and which will do nobody any good.

Needless to say, the chances of progress in this area depend primarily on political will and political decisions. These, moreover, must be of a general character; they cannot be partial in their scope, but, on the contrary, must cover all the basic items on the negotiation agenda.

Such decisions must not be made conditional upon the complete economic

recovery of the industrialized world or delayed until it has taken place. This recovery is a necessary and supremely important objective, but it is equally true that any headway made in the movement towards a more equitable and dynamic international economic order would help to promote the growth of the industrialized economies and place it on a sounder footing.

*Latin America's interest in a new international economic order*

I have already had occasion to refer to the close linkage between the economic development of Latin America and its external relations. However, I would like to emphasize a point inseparably bound up with the problems raised by the New International Economic Order. I am referring to the fact that Latin America, because it has reached a more advanced stage of industrial development and diversification of its production system than other Third World areas, has come to be ranked as an intermediate group or, so to speak, the middle class of the international community.

Does this mean that the region is in a position to dispense with international co-operation? And does the relative progress it has made in the attainment of some of its development objectives signify that it does not participate in the common claims which the Third World is addressing to the central countries?

Allow me to make myself quite clear on this point and to formulate some essential considerations on the subject.

Firstly, the status of intermediate region or 'middle class of the world' is a gross abstraction. As I said at the outset, there can be no denying that Latin America has taken significant strides for-

ward in the economic development process and especially in industrial development. However, it is equally true that both at the national level and at that of large social groups, conditions still apply which are similar to those characterizing other nations of the Third World. Thus, any generalization may be seriously misleading.

Secondly, although, on account of the degree of development now achieved, Latin America's external relations present some special features, its problems can be tackled adequately only on the basis of global approaches in which all the regions of the Third World participate and are associated.

A clear and significant example of this community of interests is to be seen in the field of raw materials. As I have already mentioned, despite the advances made in exports of manufactures, 85 per cent of our exports consists of primary commodities. Thus, manifest links of solidarity with the other Third World nations exist in relation to the defence of commodity trade and prices. That is why Latin America must continue to give unwavering support to the work of UNCTAD and, in particular, to the Integrated Programme for Commodities.

What other matters today compel the special attention of the region in the discussion of the major problems of the New International Economic Order?

As we have repeatedly said, Latin America has a vital stake in assuring itself of expanding markets for its exports of manufactures. This calls for determined persistence in efforts —sometimes doomed to disappointment— which are aimed at eliminating or lowering tariff and above all non-tariff barriers. There are sectors in the developed world which realize the importance of progress in these fields for the countries of the

Third World and, more especially, for those of Latin America. Yet we cannot but feel some disillusionment at the resurgence —sometimes systematic and sometimes sporadic— of protectionist tendencies. As the industrial exports of Latin America are consolidated and expanded, and the region secures an increasing share of world trade in these products, such tendencies might reappear. It is therefore imperative that the countries of the region should call on the highest political bodies to ensure continuous progress towards more open markets and the sanction of a code of conduct to regulate the imposition of non-tariff barriers.

Mention has already been made of the region's need for external resources; and, as I also pointed out, Latin America —without overlooking the needs of other economically more depressed areas— must continue to receive a flow of official credits for periods and at interest rates that only those sources can guarantee. The attainment of the official external assistance targets is vital; and it is also vital to obtain assurance that an adequate proportion of this assistance will be channelled into the region and, in particular, into the least developed Latin American countries. Hence it is that we attach high priority to the strengthening of such regional institutions as the Inter-American Development Bank, as well as to the continuation of the activities of the World Bank in the region. We must be emphatic on this point: Latin America needs official capital and will continue to need it. The activities of the institutions referred to and of those functioning at the subregional level deserve every support from our countries and from the international community.

I also recalled earlier that the role of private credit has been expanding in the

region, and acknowledged the importance of these resources. It is necessary, however, to design and establish safety mechanisms which will enable our countries to face up to balance-of-payments crises without having to depend exclusively or primarily on private sources of capital. It is for this reason that on other occasions, and particularly at the Trinidad and Tobago session of CEPAL, I have spoken of the desirability of establishing a financial safety net which would enable us to cope more adequately with balance-of-payments pressures deriving from abrupt changes in the international economic situation. The necessary mechanisms should be promoted by the central banks of the Latin American countries and backed by resources from outside the region. Similarly, it seems important that Latin America should support initiatives at the international level to open up new financial facilities taking particularly into account the special situation of developing countries in the intermediate group, which at present are so dependent on private capital markets.

The introduction of new technologies has played a fundamental part in the development of the region's production potential, and this process will be of ever-increasing importance in the future. The Latin American countries should therefore promote all such forms of international co-operation as may facilitate the transfer and assimilation of appropriate technologies.

Lastly, another of the region's essential tasks is to support the establishment of codes of conduct regulating the activities of transnational corporations, so as to ensure that their operations are compatible with the legitimate interests of the countries and with the principle of respect for their domestic policies.

Mention of these points does not mean, of course, that we do not attach full importance to other activities of transcendental significance in the movement towards the New International Economic Order, such as the agreements designed to lay the foundations for a new international monetary system. If we have stressed certain points it is because they are the aspects of the question that arouse most interest in the region.

As the developed countries incorporate in their international co-operation policy the general elements which most directly favour the interests of the Third World, Latin America's aspirations will be to a large extent satisfied without the necessity of resorting to vertical or geographical approaches which might be detrimental to the overall relations of the region both with other developing countries and with the industrialized world as a whole. Such approaches might also generate complex political problems, with implications of all kinds.

#### *Co-operation within the region and with the Third World*

Regional co-operation and international co-operation are inescapable necessities for Latin America. They must be practised simultaneously and with equal enthusiasm, since neither, on its own, could satisfy the aspirations entertained by our countries.

Clearly, as regards regional co-operation, there are at present ample and varied opportunities to take advantage of the considerable new productive, technological, and above all, organizational

potential which Latin America has at its disposal today. In this connexion, it is useful and instructive to note that in repeated instances of late Latin American firms have had their tenders accepted for large-scale and complex projects in open competition with international enterprises.

Similarly, due importance must be attached to the fact that many Latin American countries have built up a valuable stock of experience in activities as basic to development as oilfield operations, mining, iron and steel, fishing, some branches of agriculture, and public works.

These circumstances make new patterns of regional co-operation viable through specific projects and activities, a domain in which SELA has a major role to play.

Parallel with advances in this area, an indispensable requisite is to make headway in the integration movements through multilateral undertakings that provide a framework within which to insert the aforesaid specific activities and projects. All this will also foster progress towards the goals of Latin American integration and co-operation which the countries of the region need to reach.

Let me say again that we attach enormous importance to the many possible forms of co-operation with other developing countries. Herein lies, in our opinion, another potential which has barely been glimpsed. Factual proof of this is furnished by the contacts and relations which some Latin American countries have established with countries of Africa, and by the mutual desire to increase these links substantially.

## Conclusions

It has been my wish to place once more before this plenary meeting the product of my personal thinking and the fundamental ideas which our secretariat has been gradually evolving on the basis of the invaluable experience gained through contact with each and every country in our region.

I have had no intention to pronounce individual judgements on specific situations or to overstep the bounds of our obligation to perform strictly secretariat functions. I trust that the reflections presented here will be viewed as the discharge of what we consider to be our intellectual responsibility – an endeavour to direct attention to the problems that we honestly feel are of major concern to the region.

It is for the governments, in the exercise of their unconditional sovereignty, to accept these ideas or not, and to define solutions for what they regard as their priority problems within the context of the cultural patterns and historical values characterizing their particular economic, social and political systems.

Five propositions have been stated here which we believe to be fundamental.

The first constitutes an appeal for the construction of a new intra-regional economic and social order, taking due account from the outset of the fact that Latin America's actual and potential production capacity now allows it to aim at far more ambitious social goals than in the past.

The pursuit of these objectives should speed up a process whereby much more

rapid solutions can be found for the immense social problems affecting large under-privileged segments of the Latin American population. Accordingly, it is essential to revise our development styles and make social policy the focal point of our concern. The latter should be geared, in particular, to satisfying the basic needs of the population. It is not enough to be efficient in the economic sphere. It is also important to know for what and for whom this efficiency is of service.

The second calls upon the region to renew its commitment to the building of a new international economic order based on principles of distributive justice and equality of opportunity at the world level. As in the past, Latin America has a very important role to play in the North-South dialogue. It must also boldly face up to the task of intensive collaboration in all possible forms of co-operation with the other developing areas. This commitment is a moral imperative stemming both from our relatively advanced stage of development, and from the importance for the Third World of strengthening efforts to achieve collective self-reliance.

To this end, the major work of dialogue and compromise will have to be centred in the United Nations. A heightened political determination must exist at all levels, and above all among the countries which bear the brunt of the responsibility for the success of the process. An appeal must be made to the moral conscience of mankind and the enlightened vision of leaders and governments to forge ahead with the negotiations for a new economic order, as the

Secretary-General of the United Nations said at this meeting, and to avoid sinking into a phase of sterile and wasteful confrontation.

From these two reflections a third logically follows. To carry out these herculean tasks, the State must be modernized and thus prepared to carry great domestic and external responsibilities, within the sphere of the functions assigned to it by each country and each economic system.

To tackle these and other problems of the new international economic order, as well as those of a new internal order, both economic and social, we must study the past objectively, in order to learn the lessons of history and make projects for the future. The latter is an imperative necessity. I am inclined to believe that the inveterate faith in the regulatory forces of the market, both at the domestic and at the international levels, has tended to stifle forethought and blind us to the need to think about where we are going, fix accessible objectives and choose the most rational means of attaining them. The market is of great importance and significance, but it cannot be expected to do what is not within its power. It has neither a social nor a time horizon. These shortcomings can only be made good by deliberate and properly concerted action, in the form of convergent measures and combined national and international efforts. This is another of the major tasks with which the State in Latin America is faced.

A fourth line of thought turns our eyes to the region itself as the cornerstone for the construction of our future. It is essential to breathe new life into regional co-operation, starting from the vital premise that if we tackle our problems together, at the end of the process we shall all be better off than at the

beginning. We are united by a common past, a common geography and a body of interests which, because they are complementary, are shared in common too. The new forms of co-operation recently put into effect in Latin America must be reinforced by pooling efforts, at the bilateral and multilateral levels and at that of groupings of countries. Furthermore, our integration schemes must be objectively and dispassionately re-considered, with a view to strengthening them by taking heed of the lessons of the past. In this sphere it is necessary to rise above passing disappointments and to formulate new solutions with faith and political vision.

Fifthly and lastly, in order to attain our national, regional and international objectives it is essential to invoke Latin American unity. Latin America has blazed new trails in the terrain of development and co-operation which are now acknowledged in the world forums as initiatives of our region. Of an equally pioneering character have been Latin America's efforts to break new ground and press forward in the field of regional co-operation. And in all these enterprises there has been a common denominator without which any objective becomes harder to pursue: the unity of the region.

We have the impression that sometimes this determination weakens under the influence of passing crises or the unequal degrees in which we are affected by the world situation. It is worth recalling once again, however, that the temptation to 'go it alone' is not a good idea for any country, big or small. This is a lesson taught us day after day by the increasing interdependence of nations.

The diversity and complexity of the problems facing us is in no way incompatible with joint action by the

developing countries both at the regional and at the world level.

In these great tasks of the region, the CEPAL secretariat wishes to play its part side by side with the governments of the

member States, today as in the past, in a spirit of loyal commitment to Latin America and to the objectives of the United Nations Charter.

## Statement by Raúl Prebisch

Since I have been kindly invited to participate in this meeting—a gesture which I very much appreciate, together with the encouraging words so generously lavished on me here—I should like to offer a few reflections on certain problems which are causing great concern in our countries. Unquestionably, the most important is that, despite the momentum gained by development, vast masses are still excluded from enjoyment of its results. What has come to be called critical poverty continues to exist, and is growing relatively worse.

This is a problem which CEPAL has long been canvassing, but without managing to get it regarded as of paramount importance, perhaps because of the widespread belief that the very dynamics of development would spontaneously resolve it once and for all.

But that has not happened, and never will. For the persistence of this grave malady is due to deep-seated disorders in the system which mere palliatives cannot cure: disorders that cannot be attacked solely by means of new prescriptions—for example, the establishment of minimum consumption and welfare targets for the underprivileged strata of society. Of the imperative need to attain and even surpass such targets, there cannot be the slightest doubt. But how is it to be done? We cannot allow ourselves to be

beguiled by the manifest justice of this and other similar proposals into shirking that basic question.

This is the first point about which I want to speak now. No sooner are poverty and unemployment mentioned than the image of the technology which comes to us from the centres looms up. The CEPAL economists were perhaps the first to bring this problem into focus, a quarter of a century ago. At that time we imagined a technology adapted to the periphery and designed to serve the purpose of increasing the productivity of capital rather than reducing the labour force. But where is that technology? It would, of course, be inadmissible to put the clock back. Still, there might be a possibility of arriving at such a technology after prolonged efforts. What should we do meanwhile? I would say first what we should not do: take pains to make work for work's sake. Paul Hoffman, that distinguished figure who was the first Administrator of UNDP, used to recall how, in the United States during the great Depression, in face of the persistence in creating work by having earth moved with picks and shovels, a State Governor wondered: Why not go one better and use soup-ladles?

I believe a great deal can be done by intelligently adapting the technology of the centres, and a number of highly

encouraging specific cases bear witness to our technicians' capacity for innovation. Nevertheless, the more I think about this problem the more convinced I am that attention must be devoted to other basic factors.

The deep-seated ill does not in fact lie in the technology itself, but in the social structure into which it is introduced: a structure which permits highly inequitable appropriation of the fruits of the increasing productivity which the technology brings in its train. These fruits of technical progress represent an ever-growing capital accumulation potential. And I am persuaded that if this potential were utilized as far as possible in economic and social investments we should make steady progress towards the elimination of critical poverty and other evils. It would be, in reality, the starting-point for a transformation of the system in a profoundly social sense.

To establish minimum welfare targets without making full use of the capital accumulation potential which technical progress affords us is to drift off into the thin air of pious illusions.

Let us not deceive ourselves. Capital accumulation on a much larger scale and more rational in its composition than at present is a *sine qua non* for absorbing, at rising levels of productivity, the broad masses that are vegetating in the lower income strata of society.

The effort required is herculean. For there are substantial obstacles in the way, and one of them is the consumer society: in other words, the unbridled imitation of the consumption patterns of the centres, which tends to spread rapidly from the upper income strata in our countries to the middle strata. The diffusion of such consumption is obviously detrimental to capital accumulation. To put it bluntly: the consumer

society is incompatible with the eradication of the society of under-consumption.

The responsibility for all this is usually imputed to the transnational corporations. But let us not lay our own blame on the shoulders of others. If the consumer society is gaining more and more ground, it is basically because of the inequitable income distribution deriving from the prevailing social structure. The transnationals boost the consumer society and are closely linked to it, but the social structure depends fundamentally upon ourselves.

The transnational corporations are ambivalent. They are admirable for their innovations, their organizational capacity, their ability to attract minds that are gifted in the spheres of technology and economics (and, in some instances, prone to unwise interference in politics). Their positive contribution to development cannot be disregarded. But their ambivalence gives grounds for serious and lasting concern. For everywhere, and especially in the centres, they carry a considerable share of the responsibility for the deterioration of the environment and the destruction of non-renewable natural resources. And where the periphery is concerned, their immediate interests and the collective interests are not necessarily the same.

I remember hearing a young Soviet economist at a United Nations meeting on the transnational corporations say something like this: "I have heard the advantages and disadvantages of the transnational corporations mentioned in this discussion. My country has initiated and will maintain relations with transnationals, since it has the power to utilize the advantages and avoid the disadvantages."

The right attitude. It is true that in this part of the world we have not the

same power, but we may gradually acquire it by means of closer cohesion among our countries: a cohesion which can only be based on community of interests and unity of aims and the combined action of the peripheral countries in different spheres of collective negotiation. This has become very important, and especially so at the present juncture, when President Carter has just expressed great willingness to welcome any constructive positions that Latin America may take up in respect of foreign investment. Thus an exceptional opportunity arises for unhesitatingly facing the expansion of the transnationals in the periphery.

In this whole question certain entrenched positions must be abandoned. I am inclined to think that attempts are sometimes made to attract the transnationals so that they may do what we ought to be able to do ourselves, if we assimilate and adapt their technology and their organizational capacity, and, in addition, increase capital accumulation by efficiently mobilizing our own potential. But I am afraid that in many cases we seek the capital of the transnational corporations in order to evade this internal mobilization effort, while devoting a disproportionate share of the potential in question to imitating the consumption patterns of the centres: a course which sooner or later turns out to be counterproductive, to say the least. For —among other reasons— if the increase in productivity brought about by the transnationals is worthy of consideration, no less so is the fact that they transfer a substantial part of the resulting income abroad.

No, the transnationals should not act as a substitute for our own efforts in the matter of capital accumulation and technical progress, but should help us to

carry them out. This is not exactly what happens, however; and they are also taking our place in other fields, such as the export of manufactures. It must be recognized that they are making a vigorous drive to open up new avenues, with very positive results. Latin American technicians and entrepreneurs are also doing much. Nevertheless, we could achieve a great deal more, if in the light of past experience decisive impetus were given to the mechanisms of reciprocal trade.

I confess that I am feeling disconcerted, or rather, disillusioned. LAFTA is barely skimming the ground in Montevideo, is failing to look higher, and for that very reason is running up against major obstacles which could be removed only by virtue of great farsightedness. Among the possible ways of giving a 'big push' to inter-Latin American trade, particularly in intermediate and capital goods, where the more advanced industrialized countries are meeting with serious difficulties, perhaps the formation of Latin American multinational corporations is the most promising. The ideal thing would be to combine the technology and organization of the transnationals, wherever this was an indispensable requisite, with Latin American capital, initiative and markets, and to attract international resources in a framework of political autonomy. In this respect we were hoping that something might come our way out of the financial surpluses of the petroleum-exporting countries. These hopes are languishing, however. Venezuela is an exception because of the vision and dynamism of its President, particularly in view of the encouraging words addressed to us two days ago by his distinguished Minister of Finance. But no really significant investment is being

placed in the periphery. The developed countries continue to attract the petroleum-exporters' investments, while the developing countries go on awaiting them, admittedly without displaying any very striking capacity for initiative in order to obtain them.

Meanwhile, the transnationals are doing what best suits them in respect of trade in manufactures, and this does not always coincide with what is best for development. They are shrewd as regards exploiting their technology and their constant innovations in our domestic markets and in their export trade with other developing countries, but they scarcely avail themselves at all of the huge market of the industrial centres. Why not? Can this be called internationalization of production? Of course not. The consumer society is being internationalized, but the internationalization of production is encountering serious obstacles.

The situation thus arising in relations between the Latin American periphery and the centres is more than strange; it is paradoxical. The goods produced by the transnational corporations have generally enjoyed the benefit of tariff reductions which have been agreed upon by the developed centres and which have contributed to the notable expansion of world trade. Yet the transnationals seem reluctant to export these goods to the centres when they are produced in the periphery, despite the great opportunities which such tariff reductions afford. And in the case of certain processed and semiprocessed products in the manufacture of which the Latin American countries have acquired technical capacity and competitive ability, the tariff schedules of the centres raise what are sometimes insurmountable barriers to Latin America's exports.

In this there is flagrant irrationality. The dynamic role of the transnationals in the development of the periphery is blazoned in the centres and they are given incentives to penetrate into the peripheral countries. But at the same time the centres pay no heed to the necessity of responding positively to those countries' export efforts, in default of which the financial remittances of the transnationals help to aggravate the tendency to external disequilibrium, thus creating new factors that weaken the dynamics of peripheral development.

The phenomenon of disequilibrium, of the external bottleneck which some believed had been done away with during the international boom period that ended in 1973, is once again making itself manifest. This is an unquestionably serious matter, for the bottleneck tendency, in conjunction with insufficient capital accumulation, considerably slows down development.

Here I want to stress my profound concern at what these facts imply. We need to reach and maintain high rates of development in order to solve our problems: high rates combined with progressive income redistribution and a different composition of the social product. We have already shown our capacity for more thriving growth than was thought possible a quarter of a century ago. But this growth must be far more intensive still if we are not only to absorb, at rising levels of productivity, the increment in the labour force, but also to ensure that the lower strata, which are stagnating in a 'sub-consumer' society, are productively incorporated into the system. The task will not be easy, considering that in this last quarter of the present century the labour force will grow faster than the population, and will have doubled by the year 2000.

Thus, a greater effort than in the past will be required in order to cope with this situation, for the moment unmanageable. The rate of economic and social investment must be speeded up, and so must the rate of exports, in order to attain the vital goals of development.

This problem of absorbing the population of economically active age is extremely serious from the social and political standpoint, and if I did not lay the strongest possible emphasis on that fact I should be failing in my intellectual duty: the duty of a man who has always sought to examine objectively, but not without human warmth of feeling, the course of events in Latin America. This is what I do and shall continue to do, refraining from indulgence in the scepticism of eventide.

It is not merely those at the bottom that have to be absorbed, but also those, chiefly in the middle strata of society, who have enjoyed the privilege, denied to the others, of receiving education and vocational training: new generations that in face of the insufficient dynamism of the system find their life horizon seriously restricted.

It is easy, then, to understand their refusal to conform, their frustration and the spirit of rebellion which leads them to call the whole system in question; not merely its incapacity for productive absorption of the active-age population, but also the stubborn reality of the social exclusion of the lowest strata from the system, and, among those who are within it, the distribution struggle—a struggle which is governed by no regulating principles, and moves farther and farther away from social equilibrium as the forces of production make progress for the main purpose of satisfying the consumer society. The distribution struggle thus tends to create a disparity

between the economic process and the democratic process, with very grave consequences. The disparity cannot be remedied by curbing or suppressing the democratic process; rather must the economic process undergo a fundamental transformation, so that individual initiative and market forces can acquire the social efficacy they lack today.

This brings us face to face with one of the key problems of our time: the loss of confidence in the values inherent in democracy—one of the major *idées-force* of western civilization—both by the few who find their privileges in jeopardy and by the many that are crushed under their daily burden of poverty, under the degradation of their human condition.

In referring to the non-conformity of the younger generations, I do not want to oversimplify a highly complex psycho-social phenomenon. But I am inclined to believe that if here, in what we used to think of as a Promised Land, certain ideological seeds take root and grow, it is because the great internal and external contradictions of development afford favourable conditions for them to bear fruit. Bitter fruit of violence, germinating counter-violence... and so on, in a tragic spiral.

In these unhappy circumstances, is it not inevitable that human rights should be feelingly invoked? It cheers me to find everywhere, and especially in the Northern hemisphere, sincere and troubled concern for human rights, eloquent proof of which was the speech delivered yesterday, with such force of conviction and sincerity, by Ambassador Andrew Young. A generous irradiation of human solidarity, not to be confused with certain meditated acts of punitive hegemony, such as the proposal to saddle the international credit institu-

tions with the inadmissible role of applying discriminatory sanctions; as if we had not already potent reasons to deplore some of the ways in which great international interests exert political influence in matters that should be our countries' own exclusive province.

I cherish the fervent hope that this demonstration of human solidarity on the part of the centres may signify a vital *volte face* in the history of their relations with the peripheral countries. However, if this is to be the case, it is not enough to concentrate attention only on symptoms, on external manifestations. We must go deeper, right down to the factors responsible for the events that arouse our concern.

Two centuries of belief in the virtues of the unrestricted play of international economic forces have stifled consciousness of the ethical responsibility of those who were the first to forge ahead towards those that have lagged behind: a responsibility that embraces trade, financing, technology and the transnationals.

That same faith in the spontaneous play of economic forces, applied to the

internal economic forces of our own countries as well, has made us lose sight of supremely important human principles. Ethics is one and indivisible. In face of the major ills of development, the inescapable fact of their ethical basis must be reaffirmed. We must not forget this at the present crucial moment, when we are on the very verge of a planetary crisis of unexampled nature and magnitude, but also see before us the possibility of a utopia once inconceivable: a utopia consisting in the intelligent and socially meaningful use of the great contributions of science and technology to secure the lasting welfare of our peoples—a utopia which, if we make up our minds to it, will become a reality. What is needed to achieve it is an ethical 'big push' in the centres and the periphery alike... Ethics, and rationality as well, to build not only a new international order, but also a new internal order, without which measures of international co-operation, however enlightened, will not lead to the great changes for which the periphery clamours at this exceptionally vital turning-point in its history.

## Some CEPAL publications

**The economic and social development and the external relations of Latin America.** E/CEPAL/1024, mimeographed text, Santiago, Chile, 1977, 298 pages.

Representatives of the Latin American governments meet every two years to evaluate the progress made by their countries towards the objectives established in the International Development Strategy. To facilitate their task, and in compliance with United Nations General Assembly resolutions, the CEPAL secretariat prepares information documents on the main aspects of economic and social development in the region. Of these, the most important is the document reviewed here, which is divided into two parts. Part One analyses economic and social development in different time perspectives and at different levels of generality. From the angle of time, two approaches are adopted: one more global, covering the process over the past 25 years, and another more restricted, focusing on what has been happening in the 1970s. In addition, after giving a general picture of the economic situation, the appraisal is subdivided by sectors (agriculture, manufacturing and energy) and priority topics (growth, inflation, technology and the external sector). Part Two is also subdivided into different chapters which deal with Latin America's new place in the world economy; its economic relations with the United States, the European Economic Community, Japan and the socialist countries; its economic integration; and, lastly, conclusions and ideas for action in this field.

It is impossible to summarize here the many important conclusions on the development of Latin America set forth in this document, but its greatest virtue is that it presents as objective as possible a view of both the positive and the negative aspects of the development in question. From a general standpoint, an attempt is made to show the often contradictory relationship between economic growth and well-being, and this relationship is then analysed in particular economic and social spheres and sectors. The document thus deals with the transformation of the production system, economic growth, capital accumulation and saving, indus-

trialization, the distribution of wealth and income, employment, trends in the social sectors, and other subjects. Part Two of the document represents a systematic effort to shed light on the progress and problems observable in the region's relations with the main developed areas, above all the United States and the EEC, as well as to analyse regional economic co-operation and propound a set of practical ideas that may be useful in grappling with this complex situation.

**Economic Survey of Latin America, 1976.** E/CEPAL/1026, mimeographed text, Santiago, Chile, 1977.<sup>1</sup>

In accordance with its annual practice CEPAL prepared a *Survey* presenting the salient economic developments in the preceding year. The provisional mimeographed text of the *Survey* for 1976 is divided into two parts and comprises three volumes. The object of Part One is to analyse on general lines, three basic aspects of Latin America's economic development—growth, the external sector and inflation—while Part Two presents a country-by-country analysis. In the light of the conclusions of this study it may be affirmed that 1976 was characterized in most countries by a marked recovery of their economic dynamism. In fact, although for the region as a whole the growth rate of the gross domestic product increased only moderately, if Argentina and Mexico—which were affected by specific setbacks—are excluded, it was comparable in the rest of the region to the high rates recorded in the early 1970s. One of the factors accounting for this trend was undoubtedly the stepping-up of production in the central countries and the consequent reactivation of world trade. Furthermore, Latin America substantially reduced its deficits on the trade balance and the current account of the balance of payments, thanks largely to the favourable situation in respect of some primary exports such as coffee and mining products.

The 1976 recovery was, however, also influenced by internal factors of as much importance or more, according to the countries concerned. In this respect, an outstanding feature which should be noted is the greater structural soundness of the Latin American economy, deriving essentially from the diversification of the production system, and principally from the development of manufacturing

<sup>1</sup> Spanish version in the press.

activities. This has provided the region with new and broader bases of internal support. In other words, whereas in the past external vicissitudes shook the Latin American economies to their foundations, these effects are now cushioned and offset in differing degrees by the industrial complex—in a broad sense—which has been expanded and diversified since the 1930s, and particularly since the war.

This industrial dynamism is closely linked with developments in the external sector. First, it has encouraged the diversification of exports through the impetus given to exports of manufactures; secondly, it has increased domestic potential for import substitution in respect of consumer, intermediate and capital goods; and, lastly, the participation—in some cases predominant—of transnational corporations has, despite other negative aspects, meant an expansion of the sources of external financing.

On the other hand, the 1976 balance was unfavourable as regards inflation, since the average rise in prices was higher than in previous years. This rise took place notwithstanding the fact that in 1976 the impact of external influences on inflation was less than in the recent past, at least in terms of the increase in the cost of imports, whose average prices rose at half the 1975 rate.

The *Survey* also highlights the disadvantageous position of wage-earners in face of inflation in the countries of the region. The acceleration of inflation has reduced their real income, and the conventional stabilization policies have not remedied the situation; indeed, at times they appear to have made it worse. Clearly, this is one of the economic policy areas in which least progress has been made, despite its singular importance.

**Long-term trends and projections of Latin American economic development.**  
E/CEPAL/1027, mimeographed text,  
Santiago, Chile, 1977, 141 pages.

This document presents some findings of a research project on the long-term development of Latin America which attempts to link up its retrospective and prospective aspects. Chapter I provides a synthesis of the main features of Latin American economic and social develop-

ment in the last 25 years, on the basis of a group of global and sectoral studies.

Chapter II describes the content of the development plans formulated by the Latin American countries in the 1970s. It reviews the main objectives, goals and orientations of the economic policy embodied in the plans, and also includes background material that will help to clarify the objectives and guiding principles which the Latin American Governments propose to establish for their development policies, at least in relation to the short and the medium term.

Despite the inevitably provisional nature of the projections, chapter III advances some conclusions of a global nature. Thus, it presents fairly detailed demographic projections and global macroeconomic projections for the non-oil-exporting countries. Finally, some remarks are added on employment and the rate of economic growth.

The forward-looking study which the document presents in provisional outline attempts to depict scenarios that illustrate the main problems facing economic and social development in Latin America. These scenarios are designed as a basis for articulating projections in respect of such important areas as population growth, increasing urbanization, economic growth and its social implications, trade and external financing, the transformation of the production system and its pressure on resources, employment and unemployment, economic co-operation and the expansion of trade among Latin American countries and with other non-traditional areas.

**Canada and the foreign firm**, by David Pollock.  
Cuadernos de la CEPAL series, Santiago,  
Chile, 1976, 43 pages (in English only).

The study presented in this *Cuaderno*, prepared by the Director of the CEPAL Washington Office, raises three questions regarding the role of foreign firms in Canada: What are the main problems they have posed? What have been the solutions adopted by the Canadian Government to deal with them? Might those solutions be pertinent to Latin America?

Direct foreign investment, particularly from the United States, has played a fundamental role in Canada's post-war economic growth, but in recent years concern has been increasingly voiced with respect to its unfavourable reper-

cussions. Among these are Canada's growing dependence on trade with the United States and on the inflow of capital from that country with its pernicious effects on the balance of payments; the influence of large-scale foreign firms on the internal decision-making process; and increasing foreign control over the formation of the cultural patterns and life styles prevailing in Canada.

In grappling with these complex problems, the Canadian Government has been proceeding on two different planes. On the one hand, it has been trying to evolve distinctive industrialization and export policies to stimulate growth, distribute its benefits more equitably, and reduce external dependence and vulnerability. On the other hand, it is using new institutional machinery, such as the Canada Development Corporation, which seeks to substitute Canadian capital and technology for foreign capital and technology, and the Foreign Investment Review Agency, whose role is to examine new foreign investment and promote its consonance with Canada's interests.

After analysing the operation of these institutions in considerable detail, the author affirms that they reflect an experience which should be taken into account in those Latin American countries that are also seeking to foster domestic entrepreneurship and control foreign enterprises.

**Integración y cooperación entre países en desarrollo en el ámbito agrícola**, by Germánico Salgado Peñaherrera. Cuadernos de la CEPAL series, N<sup>o</sup> 11, Santiago, Chile, 1976, 52 pages.

It is a commonplace to speak of the difficulties of including agricultural activities in integration efforts among developing countries. Actually, the same thing has been and is still being said in connexion with the European Economic Community, which has already had practical experience of the problems involved. There are, of course, difficulties inherent in the sector itself, particularly where developing economies are concerned, but it would seem necessary to stress that what has happened in agriculture is not the only exceptional case. In reality, any integration effort among the Latin American countries is exceedingly difficult and conflictive, and the problems are largely due to the

simple fact that economic integration among developing countries is a new social phenomenon, not yet fully assimilated by the nations' political motivations, and served by institutions that are barely in the experimental stages. The need for integration is quite clear, but its rationality does not suffice to make it one of the determinants of social action. The difficulties referred to have been aggravated in the case of agricultural integration. In the first place, it has long been a tradition of the Latin American countries and of the great majority of developing countries to give more importance to other sectors in their national policies. Secondly, integration formulas were designed to operate in an economic context different from that characterizing agriculture. Lastly, the real incorporation of agriculture in economic integration is capable of unleashing vitally important changes in national economic structures and policies, and all-out action in this direction will obviously not be taken until integration becomes one of the basic determinants of political action.

Accordingly, this study contends that the peculiar inability of integration to deal with agricultural problems and needs should be recognized and kept in mind in choosing possible ways of agricultural co-operation among the Latin American countries, whether or not they are associated in integration schemes. It is not a question of awaiting the right political conditions for action, since they may occur only in the remote future; it is imperative, rather, to move towards co-operation in the agricultural context, but in doing so this political handicap limiting the depth and scope of any possible initial measures must be taken into account.

In describing these difficulties the author maintains that the path to integration does not lie through changes in tariff mechanisms or the adoption of an overall agricultural planning system in the integrated area. In his view, the most suitable instruments for initiating the integration of the Latin American agricultural sectors are somewhat more limited forms of co-operation which can be centred on certain products, on the development of given regions and on activities that can be carried out more efficiently as joint undertakings. Latin America already has many examples of these limited co-operation agreements —both in the non-controversial fields of agricultural research and the adaptation of technology, and respecting

the promotion of closer linkage in intra-regional production and trade— which constitute, in the author's opinion, the most promising road to Latin American agricultural integration.

**Temas del nuevo orden económico internacional.**

Cuadernos de la CEPAL series, N° 12, Santiago, Chile, 1976, 82 pages.

The first part of this *Cuaderno* presents the statement made by the Executive Secretary of CEPAL at the fourth session of UNCTAD held in Kenya in May 1976. In it he describes in broad terms the economic development of Latin America in recent years and its principal problems, ending with a summary of the specific results for which the region might hope from that session. In this context, he reiterates the need to find an integral solution to the problem of raw materials —which continue to be the region's main source of external resources— and to promote the opening-up of the developed countries' markets to Latin America's exports of manufactures. He also underlines the imperative necessity of making greater progress in the transfer of technology and obtaining more support in relation to the financing and balance-of-payments problems which have so seriously affected the Latin American countries in recent years. Lastly, he urges that such changes be introduced in the institutional machinery as will allow Latin America to take an active part in economic and technical co-operation with the rest of the Third World countries.

The second part comprises a study which was prepared by the CEPAL secretariat for presentation at the same UNCTAD session, and which goes more deeply into the subjects touched upon in the Executive Secretary's address. It is divided into four chapters, dealing, respectively, with international co-operation in the field of basic commodities; the United States' generalized system of preferences; Latin America's external debt; and the changes in the agreement setting up the International Monetary Fund (IMF), with the decisions adopted at the Jamaica meeting. All these questions continue to be of great topical interest, since they form part of the international discussions and negotiations under way at meetings such as those of the General Agreement on Tariffs and Trade (GATT) and the Conference on Interna-

tional Economic Co-operation, at which the bases for a new international economic order are being defined.

**En torno a las ideas de la CEPAL. Desarrollo, industrialización y comercio exterior.**  
Cuadernos de la CEPAL series, N° 13, Santiago, Chile, 1977, 51 pages.

The new circumstances in which Latin America and the world economy find themselves have revived former discussions on the nature of regional development and, in particular, on the relationship between industrial development and foreign trade. In these discussions references are often made to CEPAL concepts and approaches which do not always reflect the true tenor of the ideas expressed in CEPAL documents.

Accordingly, a selection of recent expositions of the ideas in question has been assembled in this *Cuaderno*. They were taken from texts by the Economic Development Division of CEPAL appearing in various issues of the annual *Economic Survey*, or served as a basis for statements by the Executive Secretary.

The first of these statements sets out to re-formulate the problems and objectives of Latin American development around 1950 in order to compare them with those existing 25 years later, in approximately 1974. The second analyses the relationship between inward-directed growth (through import-substituting industrialization) and growth via exports, and reaffirms the old CEPAL thesis that consideration should be given not to mutually exclusive alternatives but rather to processes which complement and reinforce one another. The third goes more deeply into the same subject, and devotes special attention to developments in Brazil in the last few years, while the fourth refers to the role of the domestic, regional and world markets in the dynamics of the Latin American economy in recent times.

**En torno a las ideas de la CEPAL. Problemas de la industrialización en América Latina.**  
Cuadernos de la CEPAL series, N° 14, Santiago, Chile, 1977, 46 pages.

As stated in the relevant summary, *Cuaderno* N° 13 includes some recent studies on the

relationship between industrialization and foreign trade, with the object of clarifying CEPAL's views on this controversial question. *Cuaderno* N° 14, following the same criterion, presents various passages from official documents prepared essentially by Raúl Prebisch between 1949 and 1963.

The reader should not be surprised to find in these pages a defence of two central tenets of CEPAL thinking: that industrialization is an inescapable requirement of development, and that it can only be carried out under the shelter of a reasonable degree of protection. The widespread acceptance of these postulates a few years ago, however, cast into shade others of equal importance, likewise formulated from the time of the earliest CEPAL texts.

The extracts presented in this *Cuaderno* are intended to bring these latter theses to the fore, and thereby to make it clear that CEPAL has never advocated a growth strategy based on import-substituting industrialization at any cost. On the contrary, they show that the defence of production and exports of primary commodities, the necessity of promoting exports of manufactures, the problems created by excessive protectionism and the flaws and deficiencies in import-substituting industrialization, *inter alia*, have been subjects of concern to CEPAL ever since its establishment. The reprinting of these texts will help forestall over-hasty interpretations and will make for a fuller understanding of the development pattern proposed by CEPAL in those years.

#### Desarrollo y cambio social en América Latina.

Cuadernos de la CEPAL series, N° 16, Santiago, Chile, 1977, 59 pages.

Of the studies prepared as contributions to the third *Appraisal*, this *Cuaderno* comprises those designed to investigate social questions. First, it presents some general considerations on trends and events in this field since the late 1940s, together with a brief analysis of the approaches that characterized social policy in those years. The object of the main body of the study is to make an appraisal in some specific social areas such as urbanization, social change in the rural environment, education and employment, and it ends by drawing attention to the most important contradictions in recent social changes and to the question of integrated development.

The analysis of the last few decades and its forward-looking hypotheses should give food for profound thought, since they suggest the existence of a number of trends whose extrapolation into the future either indicates unmanageable contradictions or forecasts their control at the expense of human well-being and freedom, to the point of annihilating all the hopes pinned to development. It is true that an increasing proportion of the resources of the public sector and of national income has been assigned to social services, particularly education, but such allocations have tended to favour the urban middle strata and have usually done nothing to counteract the prevailing inequality of income distribution. The inequality between town and countryside persists, and in the latter the bulk of the population still lives in a state of extreme poverty. The enlargement of the middle strata continues, and with it the pressure in favour of an expansion of secondary and higher education, and of the labour market and levels of consumption characterizing them, at the expense of the lower-income strata. The income increment has been distributed very unequally, and the changes in the distribution of power have also failed to bring about any significant increase in popular participation in decision-making.

Accordingly, the *Cuaderno* concludes that the next few years will offer considerable challenges, accentuated by the recent economic depression which has brought into focus the contradictions in the prevailing development style. On the one hand, drastic changes are called for in consumption patterns and in the degree of public control of certain resources, owing to the combination of population growth, urban concentration, the deterioration of the environment, the waste of natural resources and the high prices of certain imported inputs, particularly petroleum. On the other hand, something must be done to take up the challenge represented by critical poverty, inequitable income distribution, under-employment, the low productivity of a high proportion of the labour force and the scant participation of a large part of the population in national political processes.

**The water resources of Latin America. Regional Report.** Cuadernos de la CEPAL series, N° 15, Santiago, Chile, 1977, 55 pages.

CEPAL prepared this document as a guide to the discussions at the Regional Preparatory Meeting of the Countries of Latin America and the Caribbean for the United Nations Water Conference. It reflects both the stock of experience acquired by CEPAL and the supporting material provided by the specially prepared national reports.

The first part of the document analyses the supply and use of water resources, with special reference to critical areas in the use-supply ratio; the second part refers to the potential and limitations of technology in this field, while the third presents the various policy options.

The problems connected with water resources in Latin America are already highly complex and are likely to become even more serious unless they are tackled energetically. The rapid demographic and economic growth in recent years has produced an explosive increase in water requirements which has meant that heavier costs are entailed in satisfying them. Although it is true that Latin America is the region richest in water resources, they are not evenly distributed, since there are arid zones together with others that are extremely rainy, and even some which pass successively through periods of flood and drought. Furthermore, the execution of hydroelectric and irrigation projects is tending to become more costly and complicated, since sources have to be reached that are increasingly remote from the big consumer centres.

Of course, demand and water resources are differently combined in each country, so that the report has to be cautious in so far as technological generalizations are concerned. There are, however, some common institutional obstacles which hinder the sector's development: the complex and inoperative character of many laws, institutional dispersion, weak planning, insufficient financial resources, shortages and uneven distribution of trained personnel and the slight interest shown as yet by governments in environment problems.

**El medio ambiente en América Latina.** E/CEPAL/1018, mimeographed text, Santiago, Chile, 1976, 166 pages.

Everyone is aware that the environment is a source of growing concern to the developed countries, and, although in a lesser degree, this concern has spread to Latin America. It is reflected in the report reviewed here, which seeks to present in its various chapters both a diagnosis of the state of the environment in the region and an analysis of Latin America's capacity to meet the situation, together with guidelines for international action in this field.

In its diagnosis the study maintains that the very high rates of population growth in most of the Latin American countries do much to intensify the pressures on the environment. As the population grows, its distribution varies as well, and, alongside the advance of the development process, urban concentration and the creation of large metropolises are stepped up. At the same time, in many rural areas the population density goes on increasing, and this in itself continues to exert considerable pressure on some regions with limited resources, where standards of environmental quality are consequently lowered. Accordingly, many of the most serious cases of environmental deterioration are of the kind proper to large urban agglomerations, and reproduce situations well-known throughout the world, which affect a vast area extending from land and water use to air pollution or the congestion of urban transport.

Outside the metropolitan centres, the problems relating to the quality of the environment are usually associated with specific individual activities — mines, isolated factories, forestry, fishing, etc.— or, on a more general plane, with the survival of forms of agriculture that have failed to adapt to the new demands of modern society. It is further emphasized that in recent years the deterioration of the environment has been accentuated by the high rates of demographic and economic growth, which in many cases have outpaced the public administration's capacity to deal with the environmental effects deriving from them.

There are also, however, manifest signs of a growing concern about this question throughout the region, attended by the widespread support of public opinion itself, and by progress in respect of institutions and regulations designed to tackle the problems arising. The study asserts

that such problems will not be solved by the adoption of purely corrective measures and the allocation of resources to bettering the quality of the environment; preventive action will also have to be taken to improve the ratio between the costs of environmental deterioration and the actual benefits of economic development. Such measures should aim primarily at regulating the expansion of metropolitan areas, with its sequel of air, water and land pollution and disturbance of natural systems through the construction of dams, excavation of channels and reclamation of swampy land. They should also promote an integral approach in programmes for the direct exploitation of natural resources, both renewable and non-renewable.

**Evaluación de la asistencia técnica recibida por las empresas ferroviarias de América Latina** (prepared with the co-operation of Latin American Railways Association). E/CEPAL/1019, Santiago, Chile, 1976, 66 pages.

For some years, various Latin American railways have been receiving technical assistance, particularly from outside the region, which has involved a highly important transfer of technology. Through the technical assistance programmes carried out, both the railways themselves and the international agencies financing or supervising the advisory activities have gradually acquired sufficient experience in the strategy of preparing and implementing programmes and in facing the difficulties encountered in the transfer of technology.

The General Secretariat of the Latin American Railways Association (ALAF), considering that in the present stage of reconditioning of many Latin American railway networks technical assistance represents a valuable contribution towards achieving the improvements sought, organized a seminar to evaluate the technical assistance received by Latin American railways for the purpose of increasing their efficiency. The seminar was held at Montevideo in October 1975, simultaneously with the eleventh Regular General Assembly of the Association, and the discussions were based on a document prepared jointly by ALAF and CEPAL.

At the request of the seminar, the Regular General Assembly of ALAF decided to invite the General Secretariat of the Association, in

collaboration with CEPAL, to prepare a document recording the exchange of ideas and experiences effected at the seminar, and taking into consideration the contribution received through documents presented by persons and institutions concerned with the subject.

In response to this request, the present document analyses the part played by technical assistance in the reconditioning of the Latin American railways; in addition, it examines the commonest problems that have affected the formulation and execution of technical assistance projects, on the basis of the replies to an ALAF/CEPAL questionnaire received from railway companies in Argentina, Bolivia, Brazil, Chile, Colombia, Cuba and Mexico, and also taking into account the exchange of ideas and the papers presented at the seminar. Lastly, chapter III contains some recommendations that may serve as a basis for tackling future technical assistance projects related to the reconditioning of Latin America's railways.

**Indicators of economic and social development in Latin America.** E/CEPAL/1021, mimeographed text, Santiago, Chile, 1976, 200 pages.

This document presents an updated version—in general up to 1975—of the economic and social statistical data already presented under the same title in *Cuadernos Estadísticos de la CEPAL*, N° 2. It is an attempt to offer a quantitative picture for the purposes of examining and interpreting the development process in terms of economic growth, human development and social change, the domestic effort, and the evolution of external relations, especially with regard to trade and financing.

As in the previous publication, the tables are preceded by an analysis of the criteria applied in the selection of indicators, of their meaning and the analytical concepts characterizing them, and of the sources of information used, together with an examination of the statistical value of the relevant data.

**Inventario bibliográfico sobre familia** (*with special reference to Latin America and the Caribbean*) (prepared with the co-operation of the Latin American Demographic Centre (CELADE)), E/CEPAL/L.130, mimeographed text, Santiago, Chile, 1976, 169 pages.

This document presents a bibliography on the subject of the family, compiled on the basis of the publications existing in the specialized libraries in Santiago, Chile, the material sent by

institutions and researchers concerned with the topic, and other bibliographies.

The material assembled comprises approximately 1 400 titles – particularly of articles taken from over 300 periodicals consulted – arranged according to subject-matter, under the following basic heads: conceptual and methodological aspects, the family and society, types of families, marriage and kinship, the household, the socio-economic situation of the family, the status of women, fertility, minors, and family policies.

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