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Notes and explanation of symbols

The following symbols are used in tables in the *Review:*
Three dots (...) indicate that data are not available or are not separately reported.
A dash (—) indicates that the amount is nil or negligible.
A blank space in a table means that the item in question is not applicable.
A minus sign (-) indicates a deficit or decrease, unless otherwise specified.
A point (.) is used to indicate decimals.
A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.
Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.
Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.
Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.
Individual figures and percentages in tables do not necessarily add up to corresponding totals, because of rounding.

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CEPAL REVIEW No. 40

Development, crisis and equity

*Oscar Altimir**

In the midst of the crisis, equity should be sought not only by mitigating as much as possible the inequities of the adjustment process, but also, and primarily, by considering to what extent the necessary reorientation of development can give rise to more equitable socioeconomic systems.

The post-war development style of Latin America has ultimately resulted in crisis. The international economic order during which this style evolved is changing rapidly and profoundly. Both the solution of the crisis and the long-term reinsertion of our countries into the international economy call for a reorientation of development patterns.

Sustained growth, in the present circumstances, will require certain unavoidable conditions to be met. These include alleviation of the debt burden, growth in conjunction with a trade surplus, a liberalization of exports, new patterns of production based on achieving and maintaining international competitiveness, together with social linkages, the reform of the State and the consolidation of democracy. To what extent can these conditions bring about more equity?

The necessary external adjustment of economies entails unavoidable inequities. The only possibility is to keep this inequity within certain limits, attempting to make the adjustment as expansionary and efficient as possible, and ensuring that policies are included to safeguard equity.

Prospects for greater equity are subject to the choices involved in the required reorientation of development. The current world-wide technological revolution is simultaneously producing both disruptions and opportunities in favour of an integral, equitable development. These opportunities can come from the new bases of economic dynamism, the central role of technological progress and the incorporation of know-how into production, to the extent that a combination of development processes with growing social cohesion is produced.

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The author is grateful for Patricio Mujica's comments on a draft of this text, although they may not all have been duly incorporated.

Introduction

The protest against inequity in the distribution of well-being and in opportunities for individual advancement, and against the fact that the effects of macroeconomic adjustments are not equally shared, has become a cry that goes beyond Latin American societies. It comes from social leaders of every stamp and is echoed by ever larger contingents of the critically poor, badly paid workers, the underemployed and unemployed, and sections of the middle class whose standards of living and quality of life have deteriorated.

The protest is not new. Its basis may be found in the inequity characteristic of Latin American post-war development. It has become an outcry in the face of the unprecedented magnitude of the adjustments being experienced by the Latin American economies and State administrations, the high social cost involved, and the frustration arising from the failure to recover sustained growth.

The search for equitable development has thus become not only an ethical imperative of societies and public policy, but so a functional requirement for social stability and consolidating democracy, and an historical imperative to reformulate the destiny of the Latin American nations in a changing world.

The answers to this outcry, however, must be considered carefully. The crisis that the countries of this region are undergoing is structural. Therefore overcoming it calls for a change in development style. But there is no guarantee of success in the search for ways to develop which would lay the foundations for more just societies, and which would at the same time represent a functional insertion into the world emerging from present changes. Achieving such development depends on delicate and special combinations of societal processes.

On the other hand, critical situations make it urgent to begin to travel the —perhaps long— roads towards a solution. This imperative is clear on both the social front and in the different dimensions of the economic structure and State administrations. The cumulative effects of the prolonged crisis have added new constraints to sustained growth. The external debt, the rationing of capital and the transfer of resources abroad, the weakening of investment processes and the deterioration of basic capital, fiscal weakness and inflationary pressures have become part of the functioning structure of Latin American economies.

The situations of inequity that plague our countries are therefore conditioned structurally as much as by the critical economic situation. The solution on both levels presupposes reorienting development. However, for this reorientation to take place, the economies and the societies themselves must adjust to more balanced models of operation. But for such models to endure and consolidate themselves economically and politically, and thus make it possible to overcome the crisis, profound and coherent changes are needed in the economic and social structure. Whether these changes will be equitable or not will depend on whether the new styles of development are capable of transforming the historical contradictions between growth and equity into a dynamic complementarity.

The relations between growth and equity must be examined in the historical context of the Latin American development style (section I) and of its crisis, which brings new characteristics to the structural configuration (section II). The internal contradictions of the development style and the changes in the international order, in the historical context of which the development style unfolds (section III), indicate certain necessary conditions for sustaining a new phase of development (section IV).

The economic adjustments required to enter this new phase involve elements of inequity (section V). But a reorientation of development which takes into account the new historical context and which is based on a greater incorporation of knowledge, is not only sustainable, but also entails the possibility that growth and equity will complement one another in the long term (section VI).

I

The exclusionary character of the Latin American style of development

1. *Growth and equity: universal patterns vs. structural configurations*

The persistent inequality in Latin American post-war development can be interpreted in different ways. The most common interpretations originate in the hypothesis that there exists one universal pattern of modernization and development (Kuznets, 1955). According to this hypothesis, inequalities would increase in the initial stages of the process, but would begin to diminish once a certain state of development was reached. Some proponents of this theory point to the insufficient degree of modernization and distortions —mainly institutional or of public policy— which hinder the process, and prescribe strategies centred on institutional reforms and on promoting growth, in order to produce more quickly the effects of the "trickle-down".

Other proponents of the theory, however, recognize the excessive length of time involved before the effects trickle down and advise the authorities to adopt measures to modify some of the structural factors which condition the process and limit the inequalities generated in the initial phases of transformation (Chenery *et al.*, 1974).

On the opposite extreme, formulations of "another development" reject the hypothesis of a universal pattern and call for the adoption of other ways to develop, based on a different understanding of modernization —ways which give priority to both ecology and equity in meeting basic human needs (Dag Hammarskjöld Foundation, 1975).

In our opinion, the assumption that there are basic universal trends —although not necessarily predictable— in technology, the organization of production, demands and values, is compatible with the recognition that the courses of development of each society are historically specific. These courses, moreover, take place in historically specific international contexts.

Noting the existence of very general patterns of change and development (Kuznets, 1966; Chenery and Syrquin, 1975) does not justify, however, accepting simple relations between growth and equity, based on a model universally applicable, even though it may recognize variants according to the "types of countries". What the recognition of these general patterns certainly rejects, on the other hand, is the possibility that another development model in contradiction with such trends, may be successful.

However, within the field of influence of these universal trends, development "styles" can coexist (Pinto, 1976; Graciarena, 1976), characterized by different structural configurations, which involve, among others, different relations between growth and equity. There is historical evidence of other countries with income and development levels comparable to those prevalent in Latin America, but with different structural configurations, which in past decades combined considerable dynamism with reasonable degrees of equity (Fajnzylber, 1989).

These considerations justify the interpretation of the persistent inequalities of the region within the framework of the configuration of the structural features that have characterized the post-war style of Latin American development. It is difficult to understand the relations between growth and equity outside of this context. On the other hand, the search for equitable development leads necessarily to the configuration of a style that involves greater equity in sharing the fruits of growth. Such a style should therefore entail implicit relations of complementarity between growth and equity.

More than the presence of one or another feature, it is the overall structural configuration and its modality of functioning which determines the character of the relations between growth and equity. Therefore it is appropriate, first, to sum up this development style from an economic perspective, and then identify the structural imbalances that have affected growth and determined its exclusionary character.

2. *The structural features common to the style*

Beyond the peculiarities and differences in the overall opportunities represented in each country by natural resources, the size and degree of development of the national economy and the characteristics of the social and institutional system, the functioning of the post-war economies in Latin America has been characterized by a combination of common and interrelated structural features.

i) *International specialization based on natural resources.* Participation in international trade continued to be based on primary goods, in spite of significant industrialization. The impetus of the external sector remained therefore subject to the alternatives and trends of international demand for these goods and to the instability of their prices. Even in the more notable cases of diversifying exports to favour manufactured products, most of these products were derived from the elaboration of natural resources. They were to a large extent basic industrial products, the international markets for which at present reproduce conditions similar to those which have traditionally characterized commodity markets.

ii) *Domestic dynamism based on consumption.* Domestic dynamism, a motor of growth in the face of the instability and insecurity of external stimuli, was based on the continuous expansion of consumption, both private and public. Investments —including a considerable fraction of public investment— were encouraged above all by increasing demand for consumption and complementary public services. This demand was stimulated by an increase in real income and by the rapid formation of new social strata, as a result of industrialization and urbanization.

iii) *Patterns of imitative consumption.* Given its highly imitative characteristics, growth based on expanding consumption was oriented towards producing locally a basket of goods similar to that of the most advanced nation on earth. The pattern of public expenditure, in turn, generally supported imitative trends instead of trying to correct them.

iv) *The orientation of industrialization towards the domestic market and productive disarticulation.* In accord with dynamism based on consumption and its highly imitative characteristics, industrialization was oriented towards the domestic market. This pattern of industrialization "from the outset" has tended, across the whole vector of consumption, to form unco-ordinated industrial apparatuses. Moreover, it has led to increasingly complex processes, with higher densities of capital and larger scales, which have brought on greater needs of investment per unit produced and underutilized production capacity. The higher costs involved have led to a situation where the protection of each activity generally was above and beyond what was required by the processes of industrial and technological learning.

v) *Technological weakness and the lack of international competitiveness.* The urgency of reproducing on the local level the consumption levels of developed societies and industrialization oriented towards expanding domestic markets led to a superficial and costly incorporation of imported technologies, without a corresponding development of local technological capacity. Unco-ordinated production, moreover, entails a structural fragility of the system for disseminating technical progress. This systematic technological weakness constitutes in turn a deeper cause of the lack of international competitiveness than the protection of activities technologically solid but vulnerable from the economic viewpoint.

vi) *The weakness of local entrepreneurs in the accumulation process and in technical progress.* In most cases, leadership in industrial activities bringing technical progress, which give national industry its profile, was assumed by the State rather than by local private enterprises. On the other hand, the weight of small and medium enterprises is less significant in our countries than in other recently industrialized nations and it tends to form strata with technological and organizational levels considerably lower than those of large enterprises, giving rise to a good deal of structural heterogeneity within industrial sectors even in the most advanced countries of the region (Pinto, 1970). The capacity of entrepreneurs for productive accumulation and incorporation of technical progress in general has been much lower than needed for sustained growth. The considerable capacity for saving of this sector has tended to be channelled towards luxury items, unreproductive investments, financial speculation or foreign investments —a behaviour more geared to profit than to entrepreneurship.

vii) *State leadership.* The investment and innovative weakness of local entrepreneurs left foreign investment or the State (at times both, in a tacit or explicit complementarity) in charge of the strategic nucleus of investments for development. Even the movement of private capital for investment in strategic activities often had to be accompanied by almost free transfers of public capital, an unwarranted and prolonged protection, or subsidies of different sorts.

In addition, tariffs, exchange and credit instruments were used to transfer resources from commodity exports to urban and industrial activities, and from consumers and rentiers to investments. On the other hand, public investment in infrastructure facilitated and complemented the pattern of growth founded on the expansion of private consumption.

Finally, the State set itself up an essential mechanism for redistributing income. However, unlike the "welfare State" proper to the industrial countries, it worked more through tariffs and public prices and the creation of public employment than by transferring social security and well-being.

viii) *Agrarian dualism.* Although the last few decades have, seen significant advances in widening the boundaries of agriculture and modernizing different agricultural productions —with the consequent increase of productivity— dual structures persist within the agrarian sectors of most of the countries of the region. Alongside efficient export enterprises and a variety of family enterprises producing for the domestic market, many farmers are still practising subsistence agriculture.

The presence or absence of these forms of agrarian dualism in the structural configuration of each national society is probably the factor that most conditions the existing development style, common to all the countries of the region.

In any case, both modernization and agrarian underdevelopment have encouraged the intense processes of urbanization, which persist beyond the cyclical phases of urban economic activity.

3. *A structurally unbalanced style of development ...*

The structure characterized by these features tends to reproduce imbalances between supply vectors, on the one hand, and demand vectors, on the other, beyond temporary adjustments. In this sense, the Latin American development style involves several interrelated structural imbalances, which make growth unsustainable over the long term.

i) The purchasing power of exports (including the effect of the terms of trade) tends to expand less than the demand for imports derived from both prevalent patterns of consumption and public expenditure, as well as from the operation and expansion of productive apparatuses. This implies a structural tendency towards a trade deficit, giving rise to a chronic eagerness for external capital and to characteristic interruptions or limitations of growth, owing to a lack of foreign currencies.

ii) Investments needed to expand significantly the potential product tend —given insufficient technological progress, a lack of productive co-ordination and weak accumulation— to surpass the capacity for real national savings, adjusted by the effect of the terms of trade. This creates a second gap, which requires external savings, either through indebtedness or through direct foreign investment.

iii) External capital flows imply in turn future currents of interests and profits, which are added to the trade deficit, thus increasing the shortage of foreign currency, which has to be met with inputs from external savings.

iv) The demand arising from the incorporation of technology far surpasses local technological capacity and exerts pressure on the different ways of importing technology (capital goods, licencing, foreign investments). Given the insufficient investment in research and development, the unco-ordinated local industrial profiles and the technological symbiosis of transnational corporations with their home offices, local technological capacity remains in a state of underdevelopment, which worsens the imbalance.

v) The insufficient dissemination of technological progress in unco-ordinated productive structures prolongs intersectoral and intrasectoral structural heterogeneity. Not only do productive strata with vastly unequal levels of productivity, technology and organization coexist —a frequent feature in any economy at a given time— but such heterogeneity is consolidated and the differences become greater, since productivity increments in modern or formal activities tend to be above average. Under the dominant model of great capital density, transplanted technology and lack of productive co-ordination, the modernization of the backward strata would require effective access to capital and knowledge in degrees difficult to absorb on the microeconomic level and probably unfeasible on the macroeconomic level.

vi) The availability of the labour force tends to surpass the demand for modern employment derived from the present pattern of demand for goods; and demand for employment tends to grow less than demand for goods. Undoubtedly linked to imbalances between demand for and the supply of skilled labour, this structural imbalance gives rise to different forms of underutilization of human resources, which comprises the other side of structural heterogeneity of productive systems.

vii) On the level of accumulation, the structural configuration is seen in the imbalance between investments needed to achieve sustained growth, progressively eliminating structural heterogeneity and underemployment, and the investments needed for the expansion of productive capacity with the present structure. This discrepancy, moreover, increases when the conditions of the external sector and the mobilization of domestic savings restrict the attainable rate of investment.

viii) The role of the State, in the prevalent development style, entails a structural fiscal fragility. The considerable investment activity of the State (infrastructure, creation of public enterprises, transfers of capital to the private sector), along with the constant expansion of social services, have brought with them considerable increases in the tax burden. Nevertheless, this has tended to grow less than the participation of public expenditures in the product, because the broadening of tax bases was falling behind and often tax obligations were not fulfilled.

4. ... *and socially exclusionary*

The Latin American development style is not only unsustainable in the long term, due to the many tendencies towards disequilibrium resulting from its structural configuration. It is also exclusionary, because in practice it impedes the adequate participation of large segments of the population in modernization processes and in the results of growth. This exclusion limits in turn the scope of the development process.

In spite of the rapid expansion of domestic markets, the changes in social structures and the social mobility associated with such changes, inequalities in income distribution have been maintained and have even worsened. Moreover, despite the notable improvement achieved since the post-war period in some basic indicators of living conditions, the percentage of people living in absolute poverty has not been reduced.

The principle of exclusion implicit in the unbalanced functioning of the Latin American development style works in three main dimensions: the distributive patterns arising from the productive structure, the dynamic role of consumption patterns, and the characteristics and limitations of the State's redistributive action.

The redistributive patterns of the productive structure systematically reflect the weight of structural heterogeneity and underemployment, in a vicious circle difficult to overcome. Processes of productive modernization and intensive use of fiscal capital do not incorporate the total labour supply; the available structure of skills is incompatible with the demand for skills; and the dissemination of technical progress does not reach broad strata with low productivity. Moreover, the modernization of these strata —devoid of the synenergetic multiplier of better co-ordinated productive apparatuses and more integrated societies— would demand investment resources and public programmes that far exceed the capacities of the Latin American States.

Since the pattern of imitative consumption is costly in terms of domestic resources, the continual expansion of consumption has been based essentially on the prosperity of 30% —or, at most, 40%— of the higher incomes of the population, which calls for greater wealth to pay the higher prices for goods. The lower-income strata have been left out of such consumption, even though they are increasingly affected by the social patterns of aspirations centred around this basket of goods.

In fact, the tendency to reproduce locally the consumption patterns of the industrial countries carries within it a structural principle of social exclusion. Per capita investment —or rather, imports per capita— which would be necessary to guarantee the whole population access to at least the goods that comprise the consumption basket of countries whose per capita income and average productivity are five to 10 times greater, are completely out of proportion with average levels of productivity prevalent —or even accessible— in our countries. This is the counterpart to the fact that the profile of the demand for productive resources (capital, technology, labour and natural resources) derived from the prevalent patterns of consumption differs structurally from the relative availability of such resources in the countries of the region.

Nevertheless, the State has designed redistributive or supplementary mechanisms which correct the distributive patterns arising from the productive structure or which moderate the inequitable distribution of well-being implicit in imitative consumption. The extension of social services, the establishment of a network of subsidies, the maintenance of subsidized public rates and the providing of jobs and income with the State apparatus have been mechanisms of this type. But by favouring the recently-appeared middle strata, such mechanisms have allowed only for a "partial or restricted equity", which has not reached the strata located at the bottom of the social pyramid. Moreover, the dynamism of post-war growth led to substituting the demand for "systematic equity" with the demand for social mobility and the group of expectations that come with it.

In short, the structurally unbalanced style that the Latin American countries developed during the post-war period carried within it principles of social exclusion. On the one hand, underemployment and technological and productive heterogeneity provided the bases for sharp disparities of income and extended situations of poverty. On the other hand, the patterns of consumption which constitute the dynamic motor of this style and the social aspiration it projects turned out to be inaccessible for broad segments of the population. But, above all, its modes of operation call for continuous expansion of the income and consumption of the middle and upper strata of the population, without the redistributive action of the State —sustained on fiscal bases that are moreover fragile— making compensating transfers of income towards the excluded strata.

II

The crises of development, the debt and the State

By now it is clear what are the structural roots of the debt crisis that affected the countries of the region, in the context of changing international financial currents. Lax bank loans that recycled petrodollars made it possible for the oil-importing countries of the region to continue functioning with their extremely unbalanced style and even absorb the shocks of the oil price rises. Oil-exporting countries rapidly expanded their imports in spectacular fashion, aggravating the characteristic features of the Latin American development style. Thus, they not only consumed their unexpected profits; they sunk into external indebtedness.

With this scenario, several events took place simultaneously at the beginning of the 1980s: the international recession, the deterioration of the terms of trade, the sudden rise in international interest rates —a phenomenon attributable to the enormous absorption of capital by the United States— which unleashed the financial crisis that still affects the countries of the region.

It was the delayed appearance of the crisis of the region's development style. Maintaining its structural imbalances under control would require access to an increasing flow of external resources. Moreover, the economic insertion of our countries was becoming more and more anachronistic in an international context of rapid financial transnationalization, radical changes in capital flows and higher competitiveness, all taking place against the background of profound technological changes. External indebtedness was like a drug that relieved latent conflicts for a time, only causing them to explode later on.

Before the crisis, external capital facilitated growth, in its dual role of providing foreign currencies and injecting investments and technology. The State, in turn, guaranteed growth and the redistribution of income attainable within the prevalent style, while inflation acted as a mechanism which mediated both short-term and structural conflicts. The very context of growth constituted a favourable medium, although paltry or precarious in some countries or periods, for social mobility and the formation of broad consensuses, frequently tacit.

This mode of operation of Latin American societies had entered into crisis and its components had become obstacles to development.

1. *The turnaround in the transfer of external resources*

The net flows of external capital in the period 1950-1973 were greater than the remittances from our countries as profits and interests, leaving the region with a positive net transfer of resources.[1] Despite being relatively moderate,[2] such flows provided the foreign currencies essential for alleviating the structural tendencies toward external disequilibrium and were frequently a vehicle for strategic investments and the incorporation of technology in modern productive strata.

During the time of "easy capital" (1974-1981), the magnitude of the net flows of external long-term capital trebled in real terms, bringing

[1] With the notable exception of Venezuela, which has traditionally been a net exporter of capital, and of Argentina and Uruguay in the period 1960-1972.

[2] Less than 1% of the product in the larger countries of the region (although in Brazil and Colombia it reached 3.5% and 2% respectively in 1970-1973). In the Central American countries, on the other hand, the net transfers were more significant.

the net transfer of external resources towards the region to an average of 2.5% of the annual product, although in some countries it reached 10% of the product.

The debt crisis and the subsequent virtual rationing of capital, on the one hand, and the effect of the high international interest rates on the enlarged servicing of the contracted debt, on the other, brought the transfers (except in Central America) back to levels of between 2% and 6% of the product (almost 4% of the product on the regional level).

In other words, most Latin American countries have become exporters of capital, after having been traditionally importers. Only the Central American countries, Haiti and Paraguay remain net importers of capital. For Latin America as a whole, the turnaround in resources has been of the order of 6% of the regional product: before the crisis, the region received net resources equal to 2% of its product; from 1982 onwards, it has been transferring abroad almost 4% of the regional product.

As a consequence of this turnaround in external financing, the countries of the region had to adjust their economies in such a way that they would generate considerable surpluses, when they systematically ran deficits in their external trade. Moreover, available resources have been reduced, given the magnitude of the turnaround of external resources. In practice, this contraction was concentrated on investment, which diminished in real and absolute terms in almost all the countries, to the point that its regional significance declined from a little more than 23% before the crisis to barely 16% of the product at present.

2. *The fiscal crisis*

The development style that took shape in Latin America after the war implied an expansion of the State, so that it could assume its leading role in the many dimensions already indicated. This gave rise to a structural fiscal fragility, to the extent that expenditures systematically tended to grow more than tax bases.

Thus government expenditure reached between 15% and 30% of the product (excluding interest on the debt) in countries where it had fluctuated between 10% and 15% during the three previous decades. In addition, structures inflexible to short-term fluctuations crystallized within State administrations, while tax revenues tended to be pro-cyclical and to erode owing to frequent speedups of inflation.

Moreover, the capacity to control tax collection effectively is weakened by the effect of variable combinations of administrative inefficiency, costs of controls, corruption and collusion. In such conditions, an increase in tax revenues depends on individual tax-payers, and their willingness declines to the extent to which important groups of tax-payers begin to perceive that the State's ability to make the structurally unbalanced economy function without harming their interests is weakening.

This structural disequilibrium between expenditures and income implies that the government is operating with deficits. In some countries and periods, such imbalances allowed the State to fulfil its function of promoting development and redistributing wealth without major macroeconomic disturbances, obtaining resources from abroad or from the domestic private sector. In most cases, however, it led to inflationary financing.

The accelerated indebtedness of the 1970s added an unbearable burden to fiscal expenditures, and the underlying fiscal fragility turned into an open fiscal crisis. Indeed, the governments took advantage of the financial bonanza of the 1970s in order to finance their deficits and the investments of public enterprises through external and domestic indebtedness, often recycling part of the external indebtedness of the private sector. Moreover, the crisis of the external debt and the demands of the creditors transformed most of the private external debt into public or publicly-guaranteed debt. In some cases there was the added cost of rescue operations —with public resources— of the domestic financial system.

Thus, during the last decade, the amount of the public debt, external and domestic, and the publicly-guaranteed debt, quadrupled as a percentage of the regional product. Moreover, more than three quarters of the present external debt of Latin America (US$416 billion) is that of States. Thus, to increased voluntary or "programmable" public expenditures are added the burden of the debt, increased in turn by higher international interest rates.

Fiscal deficits, which used to represent 1% or 2% of the product, have thus reached magnitudes of between 5% and 10% of the product, the financing of which is all too often inflationary.

The State, a key actor in post-war Latin American development because of its roles as promoter of new activities, stimulator of aggregate demand and provider of mechanisms to redistribute income, has entered into a critical phase. The fiscal crisis has not only led to a weakening and even an abandonment of the activities that allowed the State to fulfil these strategic roles; worse still, fiscal adjustment extends, by way of recession or inflation, its convulsions to the rest of the economy and adds more elements of inequity to those already generated by this development style.

3. *Inflation, the debt burden and the domestic transfer of resources*

Inflation became a mechanism for mediating structural conflicts, especially in those countries or periods in which stronger social organizations were able to engage in the struggle over distribution. Inflation was evident both directly, through pressures on costs from wage increases or from raising profit margins and the respective indexing mechanisms, as well as indirectly, through the State fixing key prices: exchange rates and import duties, interest rates, minimum wage, public tariffs. But the multiform expansion of public expenditure was also strongly influenced by redistributive objectives, to meet demands exceeding the income obtained by each group, but which also surpass the effective capacity of the State to collect taxes. Whether because of pressures on costs or because of the insufficient financing of the fiscal deficit, the institutionalized struggle for distribution led in the past to inflationary processes difficult to manage.

The structural change necessary for the economies of the region that are exporters of capital incorporates a new dimension to their inflationary processes, as well as to the relation between these processes, structural adjustment and growth.

Since most of the external debt belongs to the public sector, the transfer of resources to the exterior weighs on their financial situation in two structurally distinct ways, depending on the institutional characteristics of the export sector (ECLAC, 1989).

In the countries where the public sector owns most of the main export activities, there is a direct link between fiscal accounts and the balance of payments, and therefore between fiscal accounts and the capacity to transfer resources to the exterior. When the value of public-sector exports falls, they tend to increase the fiscal deficit and the external imbalance, generating at the same time inflationary pressures and recessive effects. On the contrary, when these exports increase, they tend to improve, directly and simultaneously fiscal accounts, the balance of payments and the possibility of making external transfers without raising taxes or recurring to inflationary financing.

In the countries in which the main exports come from the private sector, a rise in exports also strengthens the balance of payments; but the transfer of resources to the exterior also requires that resources be domestically transferred to the public sector. Given the significance of this transfer with respect to tax revenues and the difficulty of increasing them, the completion of the transfer involves a fiscal deficit, which leads to inflationary financing. For this reason, even a favourable external trade balance does not necessarily lead to an appreciable reduction of the fiscal deficit. Even a raise in the real exchange rate to promote exports can boost the public deficit, by increasing the cost in national currency of servicing the external public debt.

As the experience of recent years shows, higher inflation, caused by the struggle over distribution, the fiscal crisis and the transfer of resources to the exterior, has become in itself a serious obstacle to growth. As a result, the already impoverished situation of the least favoured and most defenceless groups of society has frequently deteriorated even further.

III

Changes in the international economic order

The historical context in which our countries developed during the post-war period has been changing rapidly and profoundly. In the world economy long-standing conflicts are being solved and potentialities prepared for during the prosperity of the long post-war period are being realized. There is a transition to new patterns of trade, production, technology and organization.

The international economic order of the post-war period was based on free trade, the free movement of capital, the financial rules of Bretton Woods and co-operation between the countries of the OECD. The strategic confrontation with the socialist block limited the room for manoeuvre and conditioned the functioning of that order, which presided over the expansion of world trade, decolonization, and the complete development of the present pattern of technology and production.

a) *The financial scene*

The Bretton Woods system has been replaced by a scene characterized by large-scale disequilibria and considerable financial and exchange instability, although this instability is tempered in the last instance by mechanisms for consultation which form part of the co-operation between the main members of the OECD. This panorama reflects the greater interdependence that exists among the central economies, within the framework of internationalized financial markets and exchange and interest-rate systems basically subject to the forces of those markets.

The countries of the region used this change to become easily indebted, but they failed to see the consequences for the functioning of their development style and for the later management of their economic policies. The result is that Latin America is virtually rationing financial capital in a world where it is flowing in unprecedented amounts with increasing facility and rapidity. Moreover, the domestic financial systems of our countries are facing, at growing costs, the competition of this global market.

b) *Worldwide technological change*

The new pattern of technology and organization —based on microelectronics and its applications— is transforming the bases of the traditional comparative advantages of national economies and consequently the very conditions of the international division of labour (ECLAC, 1988).

Intensified technological change has heightened the historical tendencies to weaken comparative advantages based on natural resources. The savings of material and energy implied by information technologies will reinforce these tendencies as time goes on.

Moreover, the dissemination of applications of information technology in the production of goods and services tends to displace jobs and modify the profile of the skills required of labour. The effects of such tendencies on the comparative advantages which the different developing countries have fashioned for themselves in the course of their recent industrialization are complex. For the time being, comparative advantages based on cheap labour are progressively eroding. On the other hand, the availability of relatively unskilled labour with a low degree of trade unionization is attractive for establishing semi-automated industries. However, the further advance of automation in such activities and the increasing possibilities of flexible adaptation to changes in demand can operate in the opposite direction. Skills useful for the many and growing applications of informatics will, on the contrary, become the basis of the new comparative advantages.

In short, the technological revolution now in progress has given a strong impetus to comparative advantages not only in the conventional sense, because of the rapidity of change and the possibility that it will become even faster in the future, but also and especially because comparative advantages tend to depend less and less on the natural resources or traditional capacities of each country, and more and more on the incorporation of knowledge, the development of human resources and the progressive acquisition of technological and industrial capacities.

c) *World trade*

World trade continues to develop in a free-trade framework, limited only by the persistent protection that the central countries give to their agricultural sectors and partially threatened by the rise of protectionist tendencies in those countries from the time of the first oil shock and the worldwide recession of 1980-1982.

The volume of world trade has expanded more quickly than production, under the impetus of trade in manufactures and mainly in metal products, which have increasingly risen as a percentage of world trade. The share of non-fuel minerals and that of agricultural products, on the contrary, have contracted considerably in the last two decades (ECLAC, 1983; World Bank, 1987; UNCTAD, 1989).

The price rises for basic products in the mid-1970s have been vanishing as they return to the tendency to deteriorate in real terms that they had exhibited since the post-war period. Oil prices have also returned to real levels lower than those of 1974 (World Bank, 1988).

These trends in world commerce reflect both the foreseeable transformation of world demand towards more refined products and the changes already taking place in the pattern of technology and the organization of worldwide production. These trends have been reinforced by policy changes in the central countries, in order to promote a reduction of raw material and energy inputs per unit of product or consumption. In addition, in many markets for basic products the producer countries are incapable of regulating supply, because they are so highly dependent on their exports.

Finally, the prevailing configuration of the post-war period —with highly integrated zones (the European Community and the countries of the CMEA) and others less integrated is undergoing profound changes, as the unification process of the European Community speeds up, the CMEA liberalizes, the North American trade block is formed, and the Asian Pacific displays trends towards integration.

d) *The incompatibility of the Latin American development style*

The development style that the Latin American countries have consolidated in the last few decades is decisively affected by the transformations taking place in the international economic order. The characteristic features of its functioning are increasingly incompatible with the new pattern of technology and production, the trends in world trade and in the international division of labour, the instability and unpredictability of exchange and interest rates, the massive transfer of resources to the exterior, and the situation of rationing in a highly fluid world market for capital.

IV

Conditions for sustained development

The crisis of the development style can only be overcome by structural changes involving a new development profile of our economies and societies. This profile needs to have less structural disequilibria and to be compatible with the new international economic order. Behind this truism there are many different options regarding the social and economic forms that can arise. They must, however, fulfil some necessary conditions, made evident by the origin and evolution of the crisis itself.

1. *Lightening the debt burden*

In the present situation of rationed financial capital and high international interest rates, the countries of the region are obliged, no matter what the state of their debt servicing, to slow down their growth and maintain or even reduce their already declining per capita consumption (ECLAC, 1990). Perhaps, with the sole exception of Brazil, they will have to increase their trade surpluses, or, as in the case of the Central American countries, overcome negative balances. For this purpose, they would have to increase their exports considerably in relation to an almost stagnant product, and at the same time reduce their imports, restricting growth and their processes of opening up to the exterior. In these conditions, probably only the larger countries will be able to maintain their current per capita product. In most countries it will decline.

This reasoning is based on the constraints imposed by external disequilibria. In many cases, the weight of the debt on the fiscal imbalance and the impossibility of carrying out the necessary domestic transfers to cover it threaten to introduce additional perturbations in the adjustment process, plunging the economy into inflation and recession.

It is imperative, then, to lighten the debt burden, not only for humanitarian and social reasons and for political stability. Preparations must be made for the transformations of production and the reforms of the State needed to reorient development towards sustained growth and a solid external sector. In the last instance, relief from the debt burden is indispensable for solving the problem of unpaid debt in the international financial system and ending the rationing of capital for Latin America.

Nevertheless, the external debt will probably continue to be a heavy burden for national resources. Beyond proposals which, like the Baker and Brady plans, can represent advances in understanding the problem and partial efforts to solve it, no efficient mechanisms have been proposed in the industrial countries for solving the dilemma of who will assume the losses of capital or finance the necessary compensation.

Since a complete and punctual servicing of the debt is not feasible for the countries of the region, they will be obliged to combine periodical rescheduling with restricting payments, processes which will definitely keep them in a situation of rationed financial capital. Under these conditions, even the decision to transfer to the exterior only what is economically, fiscally and socially feasible supposes a growth with a systematic tendency towards a trade surplus.

On the other conceivable extreme, the alternative of repudiating the debt involves in fact removing our countries from the world financial, commercial and technological networks, and most probably holding development back.

2. *Productive transformation, competitiveness and technical progress*

Even the integration of long-term prospects with the most immediate ones and an advantageous reinsertion of the Latin American countries into world trade presupposes the progressive transformation of their exports towards agroindustrial, industrial mining and manufacturing lines, all with an increasingly technological content.

Moreover, our countries must gradually and simultaneously overcome the structural obstacles which give rise to external vulnerability, social exclusion, unco-ordinated production and technological weakness. For this purpose, they must promote modernization and industrialization processes based on the increasing incorporation and dissemination of technical progress, with a progressive development of local technological capacities and training of the labour force.

Since both processes comprise, in turn, necessary conditions for opening the way to sustained growth, productive transformation based on technical progress and its dissemination recovers its leading role on the scene of Latin American development.

Increasing international competitiveness, an objective which confers rationality on the processes of external adjustment, therefore surpasses the possibilities of manipulating relative prices in favour of tradeable goods. It presupposes the constant expansion of technological capabilities, which creates potential and goes beyond traditional comparative advantages based on the availability of natural resources and cheap labour.

The technical progress upon which such processes are based must be disseminated through productive machinery, so that competitiveness is consolidated as a systematic characteristic of their functioning and becomes a characteristic feature of future development. This requires, in turn, a suitable co-ordination of productive activities (Joint ECLAC/UNIDO Division, 1986).

In short, sustained growth, compatible with the new international order and with a higher degree of social articulation, requires changing productive structures in the sense that every type of knowledge is more intensely used. This can be incorporated in physical or in human capital; be acquired through learning in production or through local research and technological development; consist of original, adapted or copied technology; be obtained through licenses, mixed enterprises or through transnational corporations; or developed in the design of products, production or organization. This last modality forms part of what is usually called "entrepreneurial capability" and constitutes a specific mode of knowledge, with a broad field open to innovation.

3. *Surplus-producing growth and export promotion*

The consequences of the external debt make it necessary to adopt growth patterns with a surplus trade balance. On the other hand, moving from a pattern based on products with declining world markets to another one centred on the logic of new comparative advantages tuned to the dynamic forces of the world economy requires vigorous and flexible export strategies, capable of offering new products, but without weakening unnecessarily the sales of traditional products. Productive transformation based on technical progress and the search for systematic competitiveness demands, in turn, a difficult equilibrium between promoting the capacity to compete in producing for the domestic market and the protection of technological and industrial capabilities that are valuable, even though incipient, and therefore for the moment uncompetitive.

All this highlights the advisability of adopting strategies for promoting exports. Emphasis on imports is counterproductive because it is incompatible with the requirement of surplus-producing growth and with the co-ordination of domestic productive systems needed for the continuous acquisition of new comparative advantages based on technological progress. The hypothesis of a "creative destruction" of uncompetitive activities in order to stimulate the development of export activities tends to squander scarce foreign currency and consolidate traditional specialization.

The promotion of exports, on the other hand, leads in any case to more imports, since it calls for competitive inputs, but at the same time it generates the foreign currency needed to finance them. Both dimensions call for a certain degree of selectivity and gradualism, in order to reconcile the opening of the system to imports with the gradual increase in the capacity to import and with the temporary protection of new activities with good prospects of being competitive.

4. *Changing the sources of dynamism*

The necessary reorientation of development presupposes changing the dynamic sources of growth. Instead of being induced by increasing the private consumption of the middle and upper classes and public expenditure —characteristic of the style dominant up to the crisis— this change should be promoted by increasing exports and investment.

This overall vision of the needed structural changes in demand and in the allocation of resources should be interpreted, however, as a general picture of the structural transformations required for promoting exports and restructuring production based on technological progress. The dynamism arising from exports will have to originate more and more in the incorporation and domestic co-ordination of new export activities. Investment strategies should take practical shape in the promotion of specialties with absolute international advantages; in the consolidation of systematic competitiveness through disseminating technical progress; in investments in human and technological capital; and generally in a more efficient incorporation of knowledge and technology in productive processes.

5. *Changes in patterns of saving*

Strategies for transforming production like those suggested here presuppose a decided strengthening of investment capacity, in the twofold sense of disposing of the necessary savings and of taking investment decisions that are compatible with the reorientation of development.

The need for different kinds of investment; the installation of new activities; the modernization and reconversion of activities which have already gone beyond the beginning stage; the training of human resources and the incorporation of technology surpass by far the meagre rates of investment that the Latin American countries have been reduced to by the crisis.

Besides the situation of rationed financial capital, indebtedness constantly drains resources. The savings potential for financing real investment is thus eroded on two fronts.

Given the reluctance of transnational corporations to invest in our economies, it should not be expected that in the medium term direct foreign investment will fill the gap opened by bank financing. The cases where such investments are attracted by the exploitation of natural resources with clear comparative advantages or by domestic markets with prospects for expansion constitute the exception rather than the rule.

Nor should any great expectations be harboured with respect to the huge amount of capital accumulated in the exterior by residents of some of the countries of the region. For the most part, these agents already respond to a transnationalized behaviour. Outside of speculative movements, in which they use their specialized knowledge of local financial markets, these agents will probably contribute only a small part of additional investment funds over the long term.

On the domestic scene, the crucial question is centred on private-investment decisions and on the amount and allocation of public investments. The weakness of private investment processes is associated with the fragility of entrepreneurial capacity; with the attractions, particularly in inflationary contexts, and the facility of financial investments abroad; and with the accumulation of external and dynamic economies, of complementarity and articulation which are not evident in market prices nor incorporated in the calculations of private profitability.

The magnitude of public investments declined considerably when they became the main variable of fiscal adjustment. Recovery appears to be problematic, given the slowness of fiscal reform and of relief from the effects of the debt on public budgets. Moreover, the allocation of these public investments is usually distorted by the budgets and the inertia of the previous pattern of allocation as well as by the arbitrariness of budget cuts; these depend more on the ease of carrying them out than on the social benefits of the investments.

A strategy of productive restructuring presupposes, therefore, changing the mechanisms of investments and incentives. It is a question of concentrating public and private investments on subsystems of activities that can generate dynamic accumulative effects and externalities that can be only partially appropriated by individual private investment; on the development of interrelated technological capacities that offer growing social benefits; and on subsystems of productive and social co-ordination that facilitate the dissemination of technological progress. In many cases, public investment or private investment "packages" with public financing should play a catalytic role both in short-term expansion and in the decisions of private investment. Likewise, public investment or financing can comprise a critical ingredient for promoting processes such as the suitably negotiated privatization of public enterprises, and the gradual restructuring of industries with inadequate levels of operational efficiency or international competitiveness.

An investment strategy of this nature requires changing the mechanisms for generating and attracting savings. Central to this process should be the mechanisms for attracting savings from households through the financial system; reinvesting private institutional savings; and increasing the State's tax revenues, in order to set up special development programmes, together with reorienting public expenditures towards goals with more social benefits over the long term.

6. *Social cohesion*

History shows that long-term development is not viable without a certain degree of systematic integration and equity, which incorporates all levels of society into the modernization process, with respect to both their contribution to production and to the satisfaction of their demands.

This minimum of social cohesion may be less than what is normally desired or may consist over long periods of time of different combinations of social integration, social mobility, equity and dynamic articulation of demands and participation in production. Proof of this are the four decades of Latin American development, unequal but rapid; partially co-ordinated, but with intense social mobility. However, this same experience and that of other regions shows that over the long run social cohesion has to increase in order to guarantee sustained development.

On the other hand, the situations that mark the present crisis in Latin America illustrate in a particularly dramatic way that in the short term we can come dangerously close to minimal thresholds of social cohesion, beyond which inequity and economic disarticulation can lead to all-out social disintegration.

Above these critical thresholds, the condition of cohesion can be met, without a doubt, with different degrees of equity, as long as the different social groups are increasingly integrated into production and demand, and growth itself provides sufficient social mobility. This makes it possible to compare present situations of equity with the image of a more promising future, promoting social integration and participation in the collective efforts to promote growth.

7. *Reforming the State*

The task of solving the fiscal crisis in contexts of democratic pluralism takes us beyond the realm of finance into that of politics and institutions. "Fiscal adjustment" is part of the necessary redefinition of the functions of the State and of the elaboration of new institutional arrangements for carrying out, supervising and financing them.

The new institutional arrangements and the political agreements that materialize within this framework should ensure the participation of the people and intermediate associations, which would place priorities on demands and balance them with effective contributions. The demands for public services, social policies, development investments or fiscal incentives require as a counterpart institutionalized commitments to pay taxes or share the cost of meeting these demands.

This principle becomes clear, for example, when the effect of the external debt on public budgets is examined. Especially in countries where the main exports are in private hands, the surplus foreign exchange arising from positive trade balances finds no adequate counterpart in fiscal income equivalent to what the State needs to service the external debt. This leads to inflationary financing. The cancellation of the debt being excluded, the transfer of resources to the exterior should have as a counterpart a transfer of resources to the State treasury through tax revenues substituted for inflationary taxes, which weigh unequally on the population and block growth. Current institutional arrangements, then, need to be reformulated, so that they generate the necessary tax revenues and allow the burden of servicing the debt to be shared internally.

8. *Consolidating democracy*

Pluralistic democracy arises from ethical discussion as an undeniable value of human development. Ideologically, the author considers democracy to be unrenounceable, in the face of strategic rationalizations that subordinate it to economic and institutional goals. But beyond such considerations, the consolidation of democratic political structures constitutes a functional requirement for effectively handling the present crisis in the Latin American countries. It must provide the necessary reorientation of development so as to direct it towards a phase of sustained advancement.

It is difficult for reinsertion processes, in their economic, technological, political and value dimensions, to be sustained in the current international context under authoritarian rigidity, which thrives on isolation. In general, the incorporation of the productive forces of Latin America into the technological revolution under way requires huge doses of creativity, conceivable only in atmospheres that are highly interactive in freedom and pluralism. In particular, in order for the modernization processes to bring with them an equitable development style, all the segments of society must be able to express their demands and pledge their participation in the reforms and processes of structural change. Moreover, the necessary changes in the patterns of saving, designed to consolidate and disseminate modernization processes, will presumably contain elements of concentrating wealth, with the support of society as a whole, which will demand as a counterpart modalities of social participation in patrimonial rights. The conciliation of both facets of the accumulation process can only be achieved through democratic methods of consensus.

The constant negotiation needed to minimize the external debt burden, and especially the institutional arrangements for distributing it in a fair and balanced —and therefore, stable— way presuppose the efficient operation of democratic mechanisms which allow society to support public policies.

Reforming the State implies redefining its functions and working out institutional arrangements to carry out, supervise and finance them. Such arrangements will be possible only by deepening the processes of democratization. Fortunately, it is increasingly recognized that a return to authoritarianism as a possible means of solving the present crisis of the State will only aggravate it.

V

Adjustment, equity and structural change

The imperative need to maintain economies adjusted in their external and fiscal dimensions is undeniable, as is the need to ensure a reasonable price stability. On the other hand, a return to the path of sustained growth cannot be delayed.

However, it appears improper and politically unsustainable to attempt these adjustments without guaranteeing a minimum of equity in the distribution of their costs and their benefits. It should be recognized that in the present structural situation, the external adjustment presents unavoidable components of inequity. The same thing happens with fiscal adjustment, given the redistributive effects of a large part of public expenditure which is cut and the preferential recourse to indirect taxes to increase revenues. Public policy, therefore, can only partially safeguard the equity of the adjustment processes. This will depend to a large extent on whether or not these processes effectively bring about adjustment, are more expansionary without detriment to that efficiency, and promote the structural change needed to reorient development. The sense of social justice is mainly determined, then, by the structural characteristics of the equity of the development style that it promotes.

1. *Inequity in adjustment processes*

Attempts at recessive adjustment have been essentially inequitable. The contraction of domestic demand in order to diminish the internal absorption of tradeable goods and thus to generate a positive trade balance has brought with it reductions in the demand for labour and in real wages. The reduction of public expenditure has particularly affected both social services and the traditional capacity of the State to provide additional income and employment. Not only were the effects of the contraction of expenditures recessive; the effects of the correction of relative prices in favour of tradeable goods were also recessive. Given the urgency of the time-limits for straightening out the external accounts, the most important initial effect of the devaluations consisted in reducing domestic expenditure even more.

Moreover, the adjustment programmes based on the contraction of demand and the modification of relative prices turned out to be inflationary. The devaluations designed to reallocate demand raised the prices of tradeable goods. But given the rigidity of the prices of non-tradeable goods, and especially the mechanisms for indexation and the formation of expectations, the devaluations also helped to aggravate inflation. The Treasury also had difficulty in reducing its deficit while carrying out the transfer of resources to the exterior at the same time.

Inflation, and particularly the hidden tax that it implies, is inequitable, since it affects more those who have less capacity to negotiate or protect themselves: wage-earners, independent workers, retirees, small stockholders.

Finally, the failure of the successive attempts at adjustment and stabilization has been deeply inequitable by repeatedly exposing the least protected sectors of society to the brunt of the adjustment and by weakening the confidence of the more influential in the possibilities of carrying it out and their willingness to participate in the effort.

2. *External constraint, employment and wages*

As they operated before the crisis, our economies stayed near full employment (with the prevailing wage levels) —despite the tendency to have a trade deficit— because of net external financing. Adjustments to a situation of external constraints, in which the net transfer of resources has become negative and a trade surplus needs to be generated, presuppose some combination of open unemployment and drop in real wages.

In our semi-industrialized economies, an inverse relationship exists in the short term between the real exchange rate and real wages. Primary exports have little flexibility with respect to variations in the exchange rate. External adjustment has an impact, then, on the demand for imports and becomes effective through devaluation, which raises prices and erodes real wages, reducing the consumption of wage-earners. In this way (if neither investment nor public expenditure vary), the level of activity contracts, which adjusts the amount of imports and the trade balance to the required magnitudes.

In fact, given the inflexibility toward lower margins in industries dedicated to the domestic market, in order for the devaluation to lead to a rise in the real exchange rate, beyond the inflation that it could provoke, real wages must fall. That is achieved essentially through unemployment.

In the structural situation typical of our countries, total demand for labour declines to the extent that the ratio between the exchange rate and wages increases. This happens when the reduction of demand for labour in domestic activities, brought on by the contraction of consumption, normally surpasses the expansion of that demand in the export sector, induced by the higher exchange rate. In contrast, the level of employment compatible with external equilibrium is positively associated with this ratio (Canitrot and Rozenwurcel, 1986).

The more inelastic the trade balance is to the ratio between the exchange rate and wages, the higher the value of the ratio that makes the transfer of resources to the exterior compatible with full employment, and the higher still the value that makes full employment coherent with obtaining a trade surplus. But that level of the ratio between the exchange rate and wages is usually higher than the socially-tolerable maximum increase of the export sector's relative profitability and the deterioration of income distribution. Given this impossibility, domestic demand has to be contracted in an autonomous fashion (generally through fiscal policy), adjusting the employment level to that tolerable maximum (which is a wage minimum).

This stylization of the alternatives facing our economies for adjusting to external constraints makes it possible to see the fronts where action can be taken to escape from this "equity trap". Naturally, lightening the debt burden would alleviate external constraints and allow for higher levels of employment, with lower real wages; or higher wage levels, with the exchange rates already reached and employment staying the same. Likewise, any social agreement that allows for lowering employers' profit margins —in some cases, very high— to the benefit of wages can alleviate the impact of the high real exchange rate on those wages. But what is essentially needed are strategies for structural change that favour the competitive substitution of imports and especially tend to generate a higher volume of exports for each level of the ratio between exchange rate and wages and for each level of autonomous domestic expenditure. That implies diversifying exports and external markets and promoting non-traditional exports, a more elastic supply and better international prices, and above all, a systematic rise in productivity, by incorporating technical progress.

In any case, the short-term inequity of the adjustment can only be moderated, avoiding dogmatically applying prescriptions that are unnecessarily recessive or that ineffectually promote the generation of more foreign exchange, stretching resources and the efficacy of social public expenditure to the extreme. The shortages of today will only be compensated for over the longer term, to the extent that structural changes are promoted which make possible a more equitable development.

3. *An expansionary adjustment which safeguards equity*

In order to moderate the main source of inequity of the adjustment processes —recession, with its consequent unemployment and low wages— the external adjustment must be gradual and moderately expansionary. This presupposes, in turn, reducing the net transfer of resources to the exterior. Such a reduction is also necessary for placing the possibilities of fiscal adjustment within attainable limits without inflationary financing.

For the expansionary adjustment not to be frustrated by accelerated inflation, stabilization policies will have to be adopted which ensure that the effort is equitably shared and, at the same time, make the results of adjustment credible, reversing expectations. This gives rise in some countries of the region to "heterodox" stabilization programmes in which concerted income policies are applied together with containing demand and changes in relative prices.

Changing key relative prices is necessary but is not enough to bring about external adjustment and reorient development. The relatively high interest rates reflect the value of scarce capital in our economies and recognize the undeniable transnationalization of capital flows. Maintaining a high real exchange rate is necessary to stimulate production for exports or for import substitution and for moving demand towards non-tradeable goods and services, the production of which uses resources that are abundant in our economies. Moreover, the level of the real exchange rate compatible with trade-surplus strategies, like those which thecountries of the region should apply, is higher than the real level compatible with trade balance equilibrium.

Both the restitution of a certain degree of equity and the promotion of structural change presuppose restoring the financial and operational capacity of the State. Limiting the debt burden is a first step. But the basic solution calls for tax reforms and restructuring and rationalizing public expenditures.

The recovery of financial and operational capacity means that the State must meet, through welfare measures, the more urgent problems of inequity and poverty. But the State, above all, should restructure its expenditures in order to form permanent and progressive mechanisms for redistributing income.

Even so, perhaps the biggest challenge facing the State in our countries is to make the investments (infrastructure, human resource training, generation of local technological capabilities) needed to promote and facilitate structural change. These needs, cannot be met with the structural adjustment loans now offered. They probably require several percentage points of the annual product and the establishment of effective machinery for execution and management.

VI

Reorienting development and equity

Modernization processes compatible with world technological trends bring with them, if they are considered in isolation, strong elements of social differentiation.

Owing to the key role of technological progress and the imperious need to create local technological capabilities, the strategic centre is displaced towards education, formation of human resources and training. As a goal, raising the levels of education and the technological capacity of the labour force can only result in more complex, interactive and equitable societies. It is, moreover, the way to reduce —or at least freeze— the different levels of productivity and welfare of our populations with respect to those of the industrialized world.

Nevertheless, factors of social differentiation will foreseeably tend to be generated.

Opportunities for training in new technologies and employment in highly productive activities can expand less than the population and labour force. Moreover, the investments needed to raise the levels of training and productivity of the submerged strata exceed even the enlarged investment capacity of the different economies of the region. In other words, the eventual modernizing wave can worsen structural heterogeneity and underemployment.

It is worth asking, then, if the strategic response of these countries to the challenges of the present consists of another historical phase of growth with dualism and social exclusion and, especially, if it is probable and inevitable.

Our hypothesis is that such a response is not inevitable, nor viable in the long run. The structural configuration that controlled the vigorous development with social exclusion in the post-war period is in crisis. In the new international order, the conditions of sustained development, beginning with the structural configurations prevalent in the region, involve processes that can constitute the basis of a greater social equity. They have to do with the new bases of economic dynamism and with the key role of technological progress and the incorporation of knowledge in production.

The growth pattern developed before the crisis, characterized by structural heterogeneity, had to be inequitable and exclusionary in terms of well-being. Simplifying perhaps to exaggeration, it was the consequence of i) insufficient intensity of knowledge about global production; ii) the high density of physical capital (and, therefore, of incorporated knowledge) of the expansion of modern activities; iii) the insufficient co-ordination of production between these and traditional low-productivity activities; and iv) the insufficient strategic weight of consumption among the masses (a key aspect for the degree of the social coherence of development).

The new patterns of growth should be characterized, as already pointed out, by moving the primary sources of dynamism from the domestic market and consumption to investment and exports; by diversifying exports so that they include items with higher contents of knowledge; by reincorporation into international trade on the basis of greater systematic competitiveness, which requires more co-ordination of production; and, finally, by changing the structure of production in the sense of a higher relative density of every kind.

Such patterns offer opportunities for social and productive articulation capable of establishing the dynamic bases of more equitable societies. Meanwhile, emphasis has to be given to the leading role that knowledge will play, particularly the broad field which will open for incorporating knowledge into physical capital.

Certain characteristics proper to knowledge can contribute to improving distributive structures. Economic knowledge has a dimension of being a public good, so that only part of its benefits can be internalized by its authors. That explains why private production of knowledge is less than optimum and that its socially optimum production requires the intervention of the State (Mujica and Marshall, 1989). But it also implies that its appropriation can be less concentrated than its production. This production is, in turn, knowledge-intensive, which reinforces the process of generating dynamic externalities in the course of growth. Such characteristics are found, moreover, at the basis of the dissemination of technical progress and provide the opportunity of increasing the co-ordination of production, which in turn presupposes increasing modern activities —and the higher incomes they generate— or modernizing low-productivity activities.

On the level of investment, these transformations should lead to a change of composition in favour of investments in human capital and in the creation of local technological capabilities, and among the investments in human capital, to a move towards more incorporated knowledge or more complementarity with new labour-force skills or new organizational forms.

Lastly, the lessening of the dynamic role of the consumption of the wealthier strata could bring with it a weakening of this principle of exclusion implicit in the development of the post-war period and its replacement by a principle of social cohesion. That will happen to the extent that it is substituted by popular consumption or modalities of collective consumption, which meet —even if only partially— the basic needs of the population through goods and services with more modern characteristics.

Thus, the productive changes needed to reorient development can lead to more generation, direct or indirect, of employment per unit of investment, to the extent that the productive structure changes towards activities which incorporate a greater quantity of local knowledge and value added and in which domestic articulation grows. That is compatible moreover, with the need to raise the productivity of capital.

Nevertheless, the possibility that higher productivity of capital may lead to a more equitable wage structure depends to a large extent on the degree of dissemination of technical progress and on profitable investments (growth of the segments of small modern entrepreneurs and independent professionals). It is also subordinate to higher levels of private profitability not being completely appropriated by investors, but rather shared through better wages, schemes of participative capitalization and higher taxes.

The technological revolution under way simultaneously provides disturbing elements and opportunities to support a co-ordinated and equitable development. Modernization processes based on new technologies can, without distinction, worsen social decomposition and the exclusionary characteristics of the prevalent style, or become a vehicle for new ways of meeting social needs, for the co-ordination of production and for participation.

The former could result from a purely imitative transplant of patterns of consumption, technical solutions and organizational patterns which are developing in the advanced countries. But information technologies and new biotechnologies also offer the opportunity to establish systems and develop products that satisfy, in an imaginative way and at reduced costs, largely postponed needs, so that access to modernity and its fruits is extended to the more diverse strata of the population. They offer, in particular, the possibility of providing ample opportunities for suitable education and training. Training is a key factor for reconciling the need for manpower with the technological capacities required by modernization processes and the need to achieve more equitable distributive structures, as well as the effective access to modernity for the whole population.

To what extent the seizing of these opportunities would be sufficient, in historically reasonable time-limits, for progressively absorbing the tremendous numbers of the underemployed, swollen by the crisis, is a question open to debate. Overcoming unequal development requires not only expanding the modern sectors, but also progressively raising the productivity of broad strata, urban and rural, today underutilized. Labour-force training, the co-ordination of production and the proliferation of small modern enterprises constitute the main directions of such a process. The motor forces of the market and State action must be combined in order to bring together in this process investments in human capital, physical capital and technology, as well as the economic learning that is needed.

The key factor, however, which will ensure that all these elements lead to increased productivity in all sectors or segments of the economic system is the dynamic combination of processes of equitable development with a growing social cohesion.

VII
Conclusion

The countries of Latin America face today a historic turning-point with projections equivalent to those of the crises of the 1930s and 1940s, which led to the Latin American development of the post-war period. The challenges are enormous. The dynamic reinsertion of the Latin American economies into the international economy demands modernization processes and the acceleration and dissemination of technical progress, in degrees which may not be feasible, much less so in view of the required net transfer of resources to the developed world and the perspective of endemic adjustment processes. Meanwhile, policies have to incorporate the need for a permanent adjustment to changing external and domestic circumstances and include stable elements of promoting structural change and safeguarding equity. If we are to get to the root of the problem and ensure a more promising future for the populations of the region, the renewal of growth is not enough. Development must be reoriented towards a more equitable style, with structural elements that convert the disturbing elements of the modernization process into an integrated, and dynamic union. On this level, the opposite temptations of pessimism and optimism are difficult to appreciate. Utopias should be contrasted with the margins of feasibility, but they can still provide the forces that stimulate action.

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