

# CEPAL

## Review

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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

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## 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.

\*Director of the Economic Development Division. 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 organiza-

tion 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 character-

istics, industrialization was oriented towards the domestic market. This pattern of industrialization "from the outset" has tended, across the whole vector of consumption, to form uncoordinated 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. Uncoordinated 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, unproductive invest-

ments, 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 synergetic 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 mid-

dle 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.<sup>1</sup> Despite being relatively moderate,<sup>2</sup> 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

<sup>1</sup> 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.

<sup>2</sup> 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 Ameri-

can 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 partici-

pation 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 inter-

nal 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 short-ages 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 the countries 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 pro-

duction; 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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# Macroeconomic policies: in search of a synthesis

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This article analyses the evolution of the macroeconomic concepts which have prevailed in Latin America from the 1950s until the present. Two main concepts —structuralism and monetarism— have kept up an ongoing counterpoint over this period. The author analyses the main arguments of both currents of opinion and appraises their impact on the design of macroeconomic policies in the various stages of the region's development.

Around 1985, a new pragmatism appeared on the scene, and the analytical bases of this are examined in detail. The author concludes that this pragmatic approach requires a good deal of fine-tuning, both as regards the economic and social cost of its policies and with respect to the need to overcome sectoral differences through economic growth.

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## Introduction

The Latin American macroeconomic experience in the last few years has been frustrating. The heterodox experiments of Argentina, Brazil, Peru and Venezuela have crumbled; orthodox stabilization in Bolivia has generated price stability but also the absence of growth; while the returns from Mexico's orthodox-like efforts are by no means in yet. Chile is growing steadily, with low inflation, but its per capita income is barely 3% above the level of 1980 and only 12% above the level of 1970. If Chile is the example for Latin America as a whole, the implication may well be one of a wait of another 10 to 20 years before any net gain in income is realized. Costa Rica could be candidate for a rosy spot: its record on inflation and growth in 1986-1987 was most encouraging. But despite Costa Rica's extraordinary access to foreign aid, inflation was substantially up again in 1988 and per capita growth was negligible. In addition, were an attempt made to replicate Costa Rica's experience hemisphere-wide, its US\$80 per capita per year of unrequited capital inflow would translate *mutatis mutandis*, to some US\$33 billion of capital inflow a year, a clear impossibility.

Hope for a better macroeconomic situation in Latin America has to lie in the continued learning of policy-makers from past experience and from new insight into the way Latin American economies function. Fortunately there has never been lack of macroeconomic policy debate in the hemisphere. It even appeared briefly in the mid-1980s that a consensus on a pragmatic Latin American macroeconomic policy was emerging. Whether such a consensus will ultimately arise still remains to be seen. In the interim, it is worthwhile reviewing the ebb and flow of the debate since the post-war years to see where it now stands.<sup>1</sup>

<sup>1</sup>Sections I and II draw heavily on Schydrowsky, D.M., "Interdependent Development", *Harvard International Review*, November 1985.

## I

## Point and counterpoint from the 1950 to the 1980s

In the 1950s and early 1960s, the debate was between structuralists and monetarists, and became one of the classics among economic debates. The structuralists, drawing largely on insight from experience in the southern cone of the hemisphere (Argentina, Chile, Uruguay) argued that the development process inexorably brought about inflation and balance-of-payments problems; those were essentially symptoms of growth. To try to cure inflation by monetary contraction would simply stop growth without eliminating the causes of inflation. To try to cure balance-of-payments problems by devaluation was useless because the relevant price elasticities were far too low to make devaluation effective. Inflation and balance-of-payments problems, rather, would eventually disappear as a consequence of the development process itself, which would in time rebalance the economy. In the meantime, one could repress inflation somewhat with price controls, but otherwise would have to live with it. The balance-of-payments problem was best resolved by tariffs and quantitative controls, which would at the same time lead to import-substituting growth and thereby gradually cause the problem to disappear. Prices, in this view of things, served mainly a distributive function; their allocation role was thought to be severely hampered by low price elasticities, monopolies, oligopolies and other institutional circumstances which made markets function in a manner very different from competitive assumptions.

Monetarists, on the other hand, drawing from established economic theory and viewing the world largely from the vantage point of the International Monetary Fund (IMF) in Washington, argued that, without excess demand, no inflation or balance-of-payments problem could exist. Excess demand, in turn, was caused by excessive government expenditure and loose monetary policies. Thus, fiscal discipline was of the essence, government expenditure needed to be cut back, the printing press correspondingly slowed down, and, if necessary, the currency devalued to re-established its true international parity.

It will be noticed that the monetarist view is more aggregative, less specific to any particular institutional situation and thereby more broadly sweeping.

By late 1960s and early 1970s, monetarism had won the intellectual battle for control of macroeconomic policy. The level of technical training of government economists was continuously increasing and with it the influence of established economic theory. Structuralism, on the other hand, had not been able to make a good enough intellectual case. Concurrently, central banks acquired more influence compared to national planning agencies, which had earlier flourished with the support of the Alliance for Progress. But while monetarism was winning the intellectual debate for macroeconomic policy, structuralism was capturing the development policy: import-substituting industrialization swept the hemisphere.

The essence of import-substituting industrialization (ISI) is the furtherance of domestic production of as many of the country's existing imports as possible. It implies a deliberate violation of static comparative advantage on the basis of dynamic arguments relating to infant economies and infant industry claims, learning by doing, externalities, etc. Moreover, ISI is asymmetrical with regard to industrial growth. It stimulates industry in so far as it supplies domestic demand; no comparable export drive is part of the plan. Inward-looking industrialization is buttressed by tariffs and quantitative restrictions which constitute a *de facto* multiple exchange rate system. Industrial labour participates in the benefits of industrialization by an increase in wages, be it through expanded unionization or through political pressure and legislative action on minimum wages and fringe benefits. Increased labour migration to the cities follows; new migrants cannot be absorbed into organized industry and thus a so-called "informal sector" appears which makes markets more monopolistically competitive, while incomes are determined increasingly by mechanisms which in one or another way imply work and income-



sharing. The investment policy furthers the accumulation of capital stock in industry. However, there is no concern with the level of utilization of real capital stock. Indeed, the relative price of machinery and labour, the structure of the tax system, the depreciation rules, the import licensing, and the natural proclivities of entrepreneurs all interact to generate very substantial levels of unused capacity.

Growth under ISI implies that industry expands rapidly, well in excess of the rates of growth of the primary sectors. But, since industry requires imported raw materials while selling to the domestic market, it is a foreign-exchange-using sector. In turn, foreign exchange is supplied only by the primary sector. The growth pattern is therefore one in which the foreign-exchange-demanding sector is growing much more rapidly than the foreign-exchange-supplying sectors. As a result, ISI produces balance-of-payments crises due to the inconsistent sectoral growth of productive capacity which this policy furthers. Too much of the country's savings go into the foreign-exchange-using industrial sector, and too little into the foreign-exchange-producing primary sectors. This imbalance in the distribution of capital stock means that full utilization of existing capital and labour (internal balance) is inconsistent with balance-of-payments equilibrium (external balance).

When the structuralist-inspired growth policy produced balance-of-payments problems, the monetarist technocracy responded in the only way they knew: by devaluing the currency and deflating the economy. The deflation part typically worked. The price adjustments through which the devaluation was to rebalance the economy typically did not work: the ISI policy had succeeded in substantially reducing elasticities and removing flexibility from the economic system. With deflation being the principal effective macro-policy tool, the underlying imbalance rooted in the maldistribution of capital stock between foreign-exchange-using and foreign-exchange-generating sectors was not touched. Rather, the symptoms of this imbalance were being temporarily repressed while the deflation lasted. Whenever reflation was undertaken, the same problem would reappear. Argentines called this the "stop-go" economy.

The frustration generated by successive stop-go cycles combined with the impact of the first oil crisis and some particularly inept experiments in populist macroeconomic policies (Perón II, Allende) helped usher in a new macroeconomic conception accompanied by a new macroeconomic instrument. The conception was the new monetarism, which basically accepted the structuralist argument of a fundamental imbalance in the productive structure but which resolved to clean house so that markets could in the future work the way they should. It was necessary to "get the prices right". This would be accomplished by opening the economies to imports. The domestic price level would be controlled courtesy of East Asian exporters and thanks to the law of one price (i.e., domestic prices cannot diverge from ceilings set by import competition). Domestic economic efficiency would be achieved by virtue of the "winds of competition", which would also blow from East Asia. To this end, the exchange rate would be suitably managed while any transitory problems that this policy might cause in the balance of payments would be dealt with by the newly available policy instrument: capital inflow. Along with opening the economies to import trade, they would also be opened to private capital flows. Interest rates would be encouraged to rise to a level sufficient to bring in world capital in whatever amount was necessary; indeed, the *proper* amount would flow in *automatically* by virtue of the workings of the free market.

The new fashion first appeared, as is usual in the economic policies of Latin America, in the southern cone; the time was the second half of the 1970s. In its original habitat, the new monetarism coincided with a turn towards authoritarianism. However, the fashion spread to other countries with different political climates such as Costa Rica, Colombia and Venezuela.

Reality was not kind to the economic policy of the new monetarism. Import competition did not work quite the way it was supposed to. To begin with, it turned out that importing is a business that requires know-how and commercial connections. Thus, in many instances, the first importers were the same firms who were marketing the corresponding domestic products. That, however, meant non-

competitive markets. Combined with the novelty value of imports, it soon appeared that import prices were not setting the ceiling to domestic prices, but rather domestic costs were setting the floor to the pricing of imports. As these import monopolies began to be eroded, the pendulum swung to the other side. The novelty of owning import goods caught on and spread like wildfire, demand shifted massively from the purchase of domestically produced goods to the purchase of import goods.

Domestic producers attempted to ride out the loss of markets by going into debt. Since the capital markets had been opened, money for lending was readily available. The interest rate on this debt was not initially very high. Part of the new monetarism involved pegging the exchange rate or having it devalue more slowly than the domestic rate of inflation, since otherwise world prices would not have an anti-inflationary effect. The by-product was that high rates of interest in dollars translated to low or negative real rates of interest in local currency.

Consumers also went into massive debt; the financial liberalization meant for many of them that they had access to credit for the first time. What interest they were charged was secondary compared to their previous inability to borrow at all (i.e., an infinitely high interest rate), so that rates demanded did not seem unreasonable, particularly when they made it possible to buy coveted import goods. The inflow of foreign capital thus fuelled an import boom. The winds of competition had become a tornado which blew a sizeable part of the industrial sector into bankruptcy. At the same time, it inflated a huge foreign debt balloon, which was bound to burst at some time.

The foreign debt resulting from the new monetarism added to the debt Latin America had accumulated from the oil deficits and the oil boom (for both oil-importing and oil-exporting countries had borrowed generously). When interest rates rose in the early 1980s, the balloon burst. The Latin American debt crisis had arrived.

In the midst of the scramble to contain the fallout from the debt crisis, the new monetarism was largely abandoned; most governments reverted to old monetarism under the IMF's supervision; exchange rates were devalued, fiscal expenditure was cut, credit was tightened and interest rates were raised. The gross national product (GNP) fell in many countries of the hemisphere. In Argentina, the fall was 11% from 1980 to 1982, in Chile it was 15% from 1981 to 1983, in Peru it was 12% in 1983 alone, etc. Industrial output showed even greater reductions, particularly in Brazil, Chile, Mexico and Peru. Inflation did not fall together with output, as the old monetarism might have predicted. Instead, it sky-rocketed; Argentina reached an inflation of 344% and rising in 1983, Chile's inflation went from 9% to 23%, Peru's went from 73% to 125%. On the other hand, open unemployment went to double digits while underemployment was above 25% for the labour force. The only positive achievement of this incarnation of old monetarism was the improvement in the balance of trade which resulted from the depression.

At work in this unravelling of the new monetarism seems to have been a combination of elements. Nominal wages seemed to reassert a fundamental indexation to the price level, even though real wages did suffer some erosion. Profit rates in turn, seemed to maintain their levels, making up in the rate of mark-up any fall in volume of sales. Relative prices inside the Latin American economies began to deviate again from world relative prices, and, thanks to a new protectionism, moved closer to their earlier "traditional" levels. Fundamental societal forces determining the income distribution which had been repressed during the period of the new monetarist policies were now reasserting themselves. When the government, in the pursuit of old monetarist policies, administered a price shock such as the removal of subsidies or a devaluation, all it achieved was to accelerate the inflation; structural rigidities had reasserted themselves with a vengeance and were now more powerful than ever.

## II

### The new pragmatism, *circa* 1985

The collapse of the new monetarism led to the simultaneous appearance in different parts of Latin America of an approach to macroeconomic management which attempted to combine elements of earlier views with lessons from experience in a pragmatic fusion.

The new approach took from structuralism the recognition that history matters and that institutions and the structure of the capital stock and of production must be taken into account. As distinct from the new monetarism, however, it did not regard these structures as illegitimate and worthy only of being swept away. Rather, it declared them legitimate and attempted to enlist them in the evolution towards an improved future. The hallmark of these policies was pragmatism; their goal was maximizing the achievement of the possible.

On the real side, the new pragmatism started from the recognition that the well-nigh intolerable social stress caused by the recessive policies of old and new monetarism was unnecessary. Since there was idle labour and idle capital stock in the economy, production and income could be substantially higher. However, such a mobilization of idle factors of production would require complementary foreign exchange. Thus, a proper macroeconomic activation policy required taking into account differential import requirements. Enter, therefore, selective import protection and a new phase of import substitution. Concurrently, however, and drawing on historical experience of the past, the new pragmatism emphasized the promotion of non-traditional exports, trying to convert installed capacity and available industrial labour into export revenue from industrial goods. Since excess capacity was understood to be spread unevenly throughout the economy, and costs of production were by no means thought to be uniform across sectors, the export policy would have to be selective, just like the import-substitution policy. The result would be an exchange-rate system which combined one or more exchange rates, import duties, export taxes and export subsidies in a coherent manner.

The gravity of the debt situation further underlined for the new pragmatism the impor-

tance of saving and earning as much foreign exchange as could efficiently be done. However, efficiency would need to be assessed in "macro-economic" terms, i.e., on the basis of shadow rather than market prices.

On the control of inflation, the new pragmatism took into account that a substantial fraction of product prices and factor returns were formed in markets that did not conform to the standards of perfect competition. The existence of a large informal sector of the economy was held to lead to levels of labour income constrained by the need to share poverty. Such a situation implied, at best, labour incomes set by monopolistic competition in the (informal) product markets. Formal sector wages, in turn, were recognized to be governed by legislation and union/enterprise bargaining. Hence, these wages were not set by competitive markets either. In turn, the monopolistically competitive and oligopolistic nature of product markets allowed mark-up pricing and non-competitive returns to investment in most non-agricultural activities. Two major consequences resulted from these features. On the one hand, the existence of "administered" prices and incomes provided a pivot on which to base a prices and incomes policy, including temporary price and wage freezes as well as offsetting changes in nominal wages and interest rates. The second important implication arose for the evaluation of efficiency in production. With factor incomes not determined competitively, private profitability of production is no longer a good measure of national economic efficiency. The latter needs to be measured at shadow prices. It follows that tax and commercial policy should be set so as to bring private profitability and national economic benefit into equality. A proper underpinning for the differentiated features of the import-export régime is thereby provided.

The new pragmatism also recognized that response to policy would vary across the economy. In part, such differences would arise from non-uniformity of underlying conditions (e.g., some sectors would have plentiful excess capacity, others would not); other differences would result from the distribution of decision-makers

across sectors (some would be tight oligopolies of a handful of firms while others would be relatively competitive). Throughout, the new policy view attempted to gear macroeconomic policy to take advantage of these differences by looking for high-response-elasticity sectors and tailoring policy accordingly.

Finally, the new pragmatism had a much more sophisticated view of expectations. Rather than assuming that economic agents directly extrapolated the past (adaptive expectations) or that they truly knew how the economic system operated or at least acted as though they did ("rational" expectations), the new pragmatism started from the recognition that the key economic agents were relatively few in number and that their expectations (and actions) could be critically affected by enlisting them in the implementation of the economic policy. The old central banking technique of "moral suasion" was thus combined with the principles of indicative planning to yield a policy tool which could support short-term stabilization policy.

The new pragmatism was the intellectual source for the stabilization policies of Brazil (*Plan Cruzado*), Argentina (*Plan Austral*), Peru, Venezuela and Mexico; however, in none of these countries was the full package of the new pragmatism adopted. The feature most generally put into practice was the prices and incomes policy, ranging from outright freeze (by agreement or by decree) through controlled slide. The least applied part of the package was activation through export promotion. However, without a rapid increase in exports, the lack of foreign exchange could not help limiting the level of activity. In turn, without a rising GNP the incomes policy would perforce be subject to inordinate distributional strains. Policy-makers around the hemisphere saw the problem and dealt with it by running down reserves (Brazil), limiting debt payments and running up arrears (Brazil, Peru, Argentina) or repeated external debt renegotiations (Brazil, Argentina, Mexico, Venezuela). However, none of these efforts yielded more than a very temporary relaxation of the foreign exchange constraint.

The recognition of sectoral differentiation of costs, market structure and control did not spill over into a generalized policy. Brazil, Venezuela and Peru adopted the most differentiated trade

restriction systems. Venezuela's and Peru's broke down fairly rapidly under the combined weight of foreign exchange scarcity and wide differentials (which made corruption much more irresistible), while Brazil's survived thanks in good measure to being much more solidly established and of longer duration.

Moreover, the new pragmatism did not offer a clear stand on public finance, on the general notion that activation would yield a fiscal dividend, which could be used to cover a pre-existing deficit or could be used to expand government expenditure for worthy purposes. However, with activation hampered due to the lack of foreign exchange, the risks inherent in fiscal deficits loomed distinctly larger.

The failure of the "heterodox" stabilization policies in Brazil, Argentina and Peru gave the new pragmatism a bad reputation and prompted wistful longing for the old monetarist simplicity. However, significant parts of new pragmatist thinking had become received wisdom as evidenced by the heterodox elements in President Menem's stabilization plan. Moreover, there was also extensive consensus in interpreting the new pragmatist experience in regard to the breakdown of administrative control systems. Combined with the fiscal deficit, this breakdown eventually led to a general conviction that the State was a very poor administrator capable of nothing other than the most elementary functions. By contrast, Bolivia became the shining example: the stabilization of prices had been accompanied by simplification of taxes, wholesale dismantling of public enterprises, the installation of free markets, the reduction of import duties and high real interest rates. The Bolivian State had been trimmed down to size in an attempt to set the stage for growth. Mexico heeded the example and applied many of the same policies. But doubts survived: Bolivia appeared to have stabilized but it was also stagnating;<sup>2</sup> in Mexico even price stability was not assured.

<sup>2</sup>Official GNP estimates show growth of 2.8% for 1988, i.e., about as much as population grew. However, cognoscenti claim that all that has happened is that the statistics now pick up a range of informal activity that had been there all along; therefore, the true growth of GNP is alleged to be zero.

### III

## Point and counterpoint *circa* 1990: a retrospective and prospective view

Over the last four decades tension has continually existed between the policy needs of the real side of the economy, segmented sectorally, differentiated with regard to costs of production, market structure, market adjustment mechanisms, income distribution and response elasticities, and the requirements of a unified and implementable macroeconomic policy. Over the decades, policy has swung back and forth, as intellectual fashion waxed and waned and political enthusiasm and disillusion with easy-sounding prescriptions alternated.

Thus, the ebb and flow between the attention to sectoral differentiation and the emphasis on "implementable" undifferentiated macro-policy has been a constant in the policy cycles of the hemisphere. Structuralism (read recognition of sectoral differentiation) did battle with the old monetarism (read aggregate simplicity). The latter won on points, but the former had a lasting impact on the economic landscape of the hemisphere. The result was the new monetarism, cognizant of the existing sectoral needs but dedicated to eradicate them. The collapse of the new monetarism briefly re-established the hegemony of the old monetarism, but not for long. The new pragmatism appeared, attempting to legitimize sectoral differentiation within a coherent macroeconomic conception. However, running a highly differentiated policy, even if based on sophisticated concepts, turned out to be beyond the administrative capability of Latin American governments. Hence the pendulum has very recently swung once more to "automatic mechanisms", i.e., to use of the free market in microeconomic matters and to a version of the old monetarism combined with official capital inflow at the macro level.

While the sectoral fissures in the economic landscape of Latin America have become

increasingly undeniable, the trend at present is once again to let the market rip, in the hope that whatever segmentations exist will thereby be made to go away. In part, this represents the view that it is largely the government itself that creates the segmentations and distortions; therefore, they will disappear as soon as the government gets out of the way. While this happy outcome is gestated, government should attempt to become really good at doing a few very central things (such as collecting taxes).

No doubt the pendulum will eventually swing back. As it will become increasingly obvious after a few years that trimming back the government has not caused the fundamental differentiations in the economy to disappear, because these are rooted in the development process itself and at bottom define the stage of development at which Latin America finds itself, policy will once again turn towards a more disaggregate mode. Then, perhaps, an even more pragmatic new pragmatism will emerge, one that incorporates limits on the administrative capacity of the State as a basic building block of policy choice, one that more clearly targets the priority areas which require State intervention, but does not give up aggregate balance in the process.

Out of such a truly balanced pragmatism may come a transition policy which will eschew the economic surgery and the attendant social and economic costs that are at present argued to be unavoidable, and will instead allow Latin America's economies to evolve towards an effectively working market system by growing out of its sectoral differentiations.

Point and counterpoint will then have become resolved in a final accord.



## An industrial and technological strategy for Brazil

*João Paulo  
dos Reis Velloso\**

This article begins by briefly analysing the situation in Brazil which followed the crisis of the 1980s, contrasting it with the recent modifications which have taken place in the pattern of industrialization on the world level. The article goes on to discuss the new trends and their consequences for the world economy in general and the developing countries in particular.

The competitiveness and efficiency of Brazilian industry are examined. For this purpose, national exports are classified according to their competitiveness, with due regard for their technological and productive heterogeneity.

The basic ideas of the strategy proposed are to renew the modernization process, achieving growth with redistribution and reforms; to begin a new stage of industrialization; to obtain a national consensus on a model of development; and to seek a better involvement in the world economy.

The proposed strategy includes three main lines of action: to explore the dynamic comparative advantages of the country; to strengthen domestic and external competitiveness; and to bring the logic of industrialization to other sectors, such as agriculture, functional services and mining. Different public-policy instruments are spelled out in order to explain the strategy.

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The definition of a new industrial and technological strategy for Brazil is especially significant at this time. There are two main reasons for this.

The first is that the crisis of the 1980s has left a trail of infrastructural damage in electric energy, communications and transportation (mostly roads and ports), and of technological backwardness in several industrial sectors, including those oriented to exports. Throughout the decade no new industrial strategy has been defined to replace the strategy of 1974, which was worked out in reaction to the oil crisis. By failing to do so, Brazil has not only lost the chance of participating in the new cycle of world expansion begun in 1984, but also has fallen behind the recently industrialized countries of Asia, like the Republic of Korea and the Chinese province of Taiwan, which have moved on to a new stage of industrialization by adopting new technologies.

The second reason is the authentic industrial revolution taking place in the world, especially in the second half of the decade just ended. The basic pattern of industrialization has been modified by the tremendous impact of high technologies. The effects of this new industrialization must be carefully considered, both from the positive viewpoint of new opportunities and from the negative viewpoint of the limits they place on Brazil's competitiveness.

### I

## The new world trends and their consequences

International competition today is undergoing profound changes, which include the following:

a) The pattern of industrialization is rapidly being modified. Up to the 1970s, it followed the path of metalworking and chemical complexes. The new pattern of development, as is well-known, is highly conditioned by the new technologies: microelectronics, informatics, telecommunications, automation, new materials, laser, biotechnology, and renewable sources of energy.

The heart of these technologies is information technology, mainly symbolic information, of numbers or words, and also images, but which can even decipher and reprogramme information about living matter through genetic engineering, which serves as the basis of biotechnology. Recent applications of information technology are based on discoveries about new materials, on the transformation of energy by the laser, and where applicable, on new forms of renewable energy.

In the developed countries, the new technologies have produced two main currents of renovation: the development of more advanced sectors, creating a new technological and industrial pattern; and the renovation of modern sectors —and even some older ones— which recover their dynamism and competitiveness (among them, for example, the textile sector of countries like Switzerland and the United Kingdom).

b) Even though they did not invent these new technologies —frequently developed by the United States— countries with an active industrial policy, headed by Japan, knew how to make them the basis of a whole, progressively more complex, international offensive. The dominant note, however, was the attempt to conquer principally the United States and European markets, either through exports in areas like electronics or automotive vehicles, or by investing in those very markets in order to ensure a better penetration. Trade and investment thus became complementary instruments in that offensive, which displayed a great capacity to adapt to specific local demands by differentiating products, as happened in the classic case of Nissan automobiles in the United States, described by David Halberstam (1987).

At the same time, Japan multiplied its links with the so-called "four tigers" (Republic of Korea, the Chinese province of Taiwan, Singapore and Hong Kong), especially with the Republic of Korea; with China, which is becoming the new global competitor in world markets; and, more recently, with the countries of the Association of South-East Asian Nations (ASEAN).

c) The United States and Europe became more protectionist in reaction to this offensive. The concept of managed trade and the principle

of reciprocity overrode the traditional principles of non-discrimination and transparency established by the General Agreement on Trade and Tariffs (GATT). At the same time, huge common markets began to develop, characteristic of the multipolar world which is perhaps replacing United States hegemony. One need only mention the free-trade agreement between the United States and Canada, with repercussions in Mexico; it could in fact lead to a special integration scheme with the common market of Oceania (Australia and New Zealand). Therefore, the United States strategy has clearly not been limited to defensive reactions.

Along the same lines, the unification strategy of the European Economic Community in 1992 is being careful to avoid having the enlargement of its market benefit principally United States and Japanese transnational corporations. It seems clear that a new dynamism is dominating Europe, reaching even the peripheral zones such as Portugal and Greece, and certainly with strong centres such as the Federal Republic of Germany, the United Kingdom, Italy and perhaps France.

In any case, in forming these large regional blocs (in which Brazil does not participate), there is an element of trade diversion, and, consequently of inversion, which is detrimental to the countries outside of these common markets and certainly favourable to those within them.

Eastern Europe, with a mediocre economic performance up till recently, could recover its strength with the help of Gorbachev's *perestroika*. The new attitude of the Soviet leadership has already helped to minimize or resolve local conflicts in different parts of the world. International tensions have been relaxed, which could contribute to the new cycle of expansion on a world scale.

d) In the light of the trend to strengthen the regional blocs, which favours the industrialized countries through trade diversion and investment, consideration should be given to the international effects of macroeconomic imbalances.

The main imbalance is the United States tendency to maintain huge trade deficits, and therefore new devaluations of the dollar. This would lead to a greater loss of competitiveness by the European countries and Japan in relation to the countries of the dollar zone, generally



including the newly industrialized countries. At the same time, European and Japanese investment in medium- and even high-tech product lines, and/or intensive use of capital, generally long-cycle products (naval construction, capital goods and their components, durable consumer goods and certain electronic products), could be moved to the recently industrialized countries.

e) To the extent that competition among the large blocs increases, markets will become more international, with financial and capital markets operating apart from currents of trade and direct investment, through credit operations, in the first case, and portfolio decisions (and not direct industrial investment) in the second.

In this much more internationalized—and therefore interdependent—context, national policies have to take into account the actions of large transnational corporations. These tend to adopt strategies designed for world-wide competition and serve as active agents of the new changes, both with respect to the industrial pattern and the formation of new common markets.

It is difficult to single out the trends in a situation of conflicting and increasingly world-wide movement. Nevertheless, although the different blocs compete among themselves, it cannot be denied that there is greater integration within the Organization for Economic Co-operation and Development (OECD) i.e., between the countries of the developed world. This can be seen in trade currents, direct investments, technological alliances, financial investments and capital markets.

On the one hand, since 1984 the United States has experienced a period of sustained prosperity, which has attracted large external investments, currents of financial capital and portfolio investments. On the other hand, European unification is awakening considerable interest among the Japanese and United States transnational corporations, which are afraid of losing their position in exporting to this market. Finally, the debt crisis has cut off the flow of foreign capital, both risk and financial, from the countries of Latin America.

This trend has not prevented the recently industrialized countries of Asia from continuing

to develop dynamic industrial policies, which always reveal new possibilities of external competitiveness. Their gross domestic product and especially their exports continue to increase rapidly, which would indicate that they are taking advantage of the new cycle of world expansion. Even the external debt of the Republic of Korea has already ceased to be a problem, since it is being reduced even in absolute value.

A new star is coming on to the stage of world competition: the People's Republic of China. On the one hand, its yearly exports, of the order of US\$130 billion to 140 billion, and its reserves, close to US\$90 billion, already make it one of the major participants. On the other hand, its opening to a market economy and to advanced technologies has accelerated the process of economic integration with Hong Kong and the Chinese province of Taiwan. Whatever the outcome of its political integration, the Chinese world is a new, natural, common market.

These facts basically mean that the increasingly world-wide character of markets and the strengthening of large regional blocs have undoubtedly intensified competition and placed the developing countries somewhat on the margin.

Nevertheless, as the recently industrialized countries of Asia, the People's Republic of China and the Soviet Union itself (and with it, the East European bloc) have understood, these effects imply important disadvantages only when developing economies lack specific weight and accept a static situation with respect to comparative advantages and competitiveness; in other words, when they accept being on the margin, which is certainly not inevitable. These economies suffer damage when they do not develop, on their own or through transnational enterprises, new factors of competitiveness from the new pattern of industrialization; if they do not form new alliances, in order to avoid remaining outside world markets; if they do not take advantage of opportunities to relocate investments or new export lines linked with the deactivation of certain sectors in Europe and Japan, owing to the new devaluation of the dollar; and if they do not find new ways to involve themselves in world competition.

## II

### The competitiveness and productivity of Brazilian industry

Having made these observations, we turn now to the question of the competitiveness and efficiency of Brazilian industry.

The first point to explore is the competitiveness of Brazilian exports. It is mainly a question of knowing whether this competitiveness depends excessively on macroeconomic instruments, such as the exchange policy, or if it is more closely linked to factors of industrial productivity. A first answer is found in a study done by the IEL, of the Federal University of Rio de Janeiro. The study concludes that Brazilian exports of manufactures are divided into three groups on the basis of factors of competitiveness:

*Group I* consists of non-durable consumer goods, such as footwear and clothing. Their competitiveness is derived from the domestic use of abundant natural inputs (for example, textile fibres and leather) and relatively cheap labour. They combine advantages derived from being relatively well endowed with factors which have other advantages such as the domination of production techniques, adequate scales and quality control. The possibilities of modifying such advantages are increasing, owing to the use of electronic equipment.

*Group II* consists mainly of intermediate goods (for example, steel, pulp, aluminium and chemical products). The main element of their competitiveness is the degree of technological advancement of their productive capacity. There are advantages derived from recently installed scales of economic production, associated with the low cost of abundant inputs in the country (iron ore, wood, bauxite). Modifications of the comparative advantages can be based on substitute materials (plastics, ceramics). In any case, it is indispensable to remain up to date with respect to absorbing the logic of informatics.

*Group III* consists especially of capital goods, weapons and durable consumer goods, all with multiple attributes and considerable diversification. At times they are presented in "packages" (systems of goods and complementary services). Competitiveness is

derived especially from technological training and attention to the specific needs of certain markets. Exports are encouraged by long-term financing, generally from abroad. Economies associated with increasing skills are important. The State usually plays an important role in sales.

To a large extent, this group involves exports to countries less technologically developed than Brazil. In some cases, such as aircraft, Brazil can compete with developed countries. Having its own technological training and staying up to date technologically are vital for maintaining the competitiveness of these products.

To these three groups of manufactured goods should be added the agroindustrial complexes in which Brazil was able to consolidate its activity, such as soya and orange juice, as well as the sectors linked with mineral processing. This would give a complete picture of the country with respect to its industrial exports, in a broad sense.

It can be concluded that Brazilian competitiveness is linked largely to specific sectoral factors, which can range from being relatively well endowed with labour and natural resources to the modern character of large-scale installations (with standardized technology and reasonable competition with respect to the technology of the product and process). This does not mean that the exchange policy was unimportant. The need to generate tremendous surpluses led to the constant adjustment of the real exchange rate. The huge devaluation of 1983 was part of an effort to face an emergency situation. Nevertheless, specific factors of competitiveness are more related to an evaluation of the levels of efficiency of Brazilian industry in comparison to external competition.

Any analysis of the question is difficult at this time because, as is known, in recent years the non-tariff system of barriers only allowed products to be imported that did not compete with national products. For this reason, we preferred to use the World Bank study based on a survey taken in 1980-1981, a period in which the level of non-tariff restrictions was much lower.

The study begins by referring back to the situation in 1967, after protective tariffs were reduced by the government of President Castelo Branco. In that year, the level of nominal protection was 48%, with the real level at an average of 66% for the processing industry. The highest level (101% effective protection) was achieved by consumer goods. Intermediate goods were close to the average and capital goods below it. The situation reflected the industrial policy of the time: strong protection for consumer goods, which constituted import substitution, and less protection for equipment, the importation of which was subsidized.

The analysis made of the 1980-1981 period gives very different results. The implicit effective protection was 23% on the average for the processing industry. This was measured directly (not by the tariff) by the difference between domestic and external prices according to the equilibrium exchange rate — "shadow" — and the current subsidies. (It should be noted in passing that the figure for agriculture was -21%.) Considering the different categories, the figure was 16% for consumer goods, 22% for intermediate products and 37% for capital goods. This means that the overall level of protection was reduced, the protection of consumer goods (imports of which had long since been substituted) was considerably lowered, and the protection for equipment, which has recently been substituted, greatly increased. It was a reasonably predictable result.

However, once the distortions of the price system have been corrected, it can be observed that the average protection, not very high, conceals effective protectionist levels, rather high in some branches of industry: 52% in machinery, 82% in electrical equipment, 60% in chemicals, 85% in pharmaceutical products and 64% in perfumes.

On the product level, cases of much higher protection can no doubt be found. The reason for this is well-known: the import substitution process, especially in the heroic stage of the 1950s and during the time of scarce foreign exchange in the 1980s, showed little selectivity or flexibility. This was particularly true of flexibility, in the sense that the usual procedure consisted of fixing certain indexes of nationalization for the main products, which had to be reached rapidly. (Little

attention was paid to the much more than proportionate increases in costs arising from small increments of those indexes, after a certain level.)

Consequently, the correct interpretation of the question of the level of tariff protection demands great care. The use of averages by sectors (whether according to the criterion of effective tariff or implicit protection) generally underestimates the protectionist character of the system, in so far as there are a considerable number of branches, and particularly products, with negative protection. What is basically of interest, then, is to consider on the product level what is over and above the average.

Another distortion mentioned in the study is the large dispersion of the levels of protection between the different branches. It runs from -18% for non-metallic minerals to +97% for pharmaceutical products. The final liquid level of protection in other branches is not the result of a deliberate policy, but often only of the accumulation of the effects of multiple instruments with different objectives. In itself, the excessive dispersion can indicate a real level of protection higher than what is apparent, in so far as it implies a large number of branches with below average protection, and therefore also a large number with above average protection (which is, as stated above, the usual case).

What can be said, then, about Brazilian industry? It is, above all, enormously heterogeneous in technology and management. Because of these and other factors, it is also enormously heterogeneous with respect to levels of productivity. This fact, moreover, was explicitly recognized in the proposed industrial policy of the National Confederation of Industry (CNI), presented in May 1988. The heterogeneity can be seen between branches of industry, within the same branch, and at times within the same firm (between different plants). The conclusions about whether or not this fact has economic importance will be presented below, when the question of strengthening the competitiveness of the country is analysed. Nevertheless, some factors responsible for this heterogeneity are worth mentioning.

The first and most obvious factor is that import substitution moved from non-durable consumer goods in the 1930s to durable consu-

mer goods in the 1950s, with some substitution in other categories. From 1974 to the present, import substitution has especially affected intermediate and capital goods. The different ages of the diverse industrial establishments are due to this substitution.

Thus, some modern sectors, developed on the basis of the 1974 strategy, such as basic inputs and capital goods, have new plants, with an economical scale and a state-of-the-art electromechanical technology. There are, however, even in this group, branches, such as paper and pulp, in which large integrated enterprises coexist with smaller, less modern, enterprises. These have their own internal heterogeneity, since they maintain machines in old plants (on the limits of economic and technical survival).

In the older sectors, of both durable and non-durable consumer goods, there were very different degrees of modernization throughout the boom of the 1970s, depending largely on the extent to which their export drive faced competition from the rest of the world.

The situation became complicated with the stagnation of recent years and the lack of investment already mentioned. The base was already very differentiated, and became even more so because of the disparity of efforts made by the different sectors to adopt the logic of informatics during the present decade. This disparity was caused by the enterprises' own policies, as well as, during a certain stage, by the obstacles arising from the restriction on imports and the policy on informatics. Consequently, evidence is accumulating that in several sectors, including the export-oriented industries (like textiles, footwear and automotive vehicles), technological backwardness is beginning to have a real effect on the competitiveness of the country.

A recent study of technological innovation in the Brazilian processing industry was conducted by the Brazilian Institute of Economics (of the Getulio Vargas Foundation). Although only preliminary, it gives an idea of the results of this evolution. The criterion consisted of having each sector evaluate subjectively its degree of modernization. The results vary. The indexes are 98% for the aeronautics industry, 95% for steel, 92% for chemical elements and products, 90% for non-ferrous minerals, 79% for pulp and paper, 66% for sound and television apparatus, 65%

for machine-tools, 46% for automotive vehicles, 37% for tractors and earth-moving equipment and 14% for milk and milk products.

A second factor of heterogeneity is the system of industrial protection, the characteristics of which have already been mentioned. In the most recent stage, direct administrative action was the rule, case by case. Then a level of ensured protection came into existence, an element of protection unsolicited by those to be protected, but rather arising simply from the country's need to avoid spending foreign exchange.

According to the analysis of Honorio Kume (no date), the Brazilian system of protection was characterized by the generalized presence of tariffs that exceeded in almost all sectors the protection needed, and by the broad use of non-tariff barriers (list of suspended products, previous authorizations, minimum terms for financing) which recently affected almost 60% of the processing industry. There was also the Law of the Local Similar Product (often interpreted in a simplistic way, only in terms of the existence of a similar product in the country, without taking into account the other requisites of the same law) and the approval of the annual budget for the imports of each enterprise. In recent years, there has also been the effect of the restrictions from the Informatics Law.

At the same time, additional taxes on imports were collected, such as the IOF, the TMP (to improve the ports) and the AFRMM (additional tax for the renovation of the merchant marine).

To sum up, the system could be described as irrational, out of touch with the current industrial structure of the country and the objectives of the industrial policy, complicated, extremely haphazard, redundant in innumerable sectors and inadequate in others (which was determined by a direct, non-tariff control). Only the competence of the agencies that had to apply it, mainly the external trade agency (CACEX), avoided worse problems, even though it was unable to overcome all the drawbacks of irrationality and haphazardness. The operation of the system virtually meant importing only goods which complemented the country's industrial structure.

Given the almost prohibitive character of the system (in the sense of prohibitive tariffs), and its aim of saving foreign exchange, it is no surprise that special systems multiplied, at times

affecting almost 80% of imports. Recently, there were 42 special systems, which awarded exemptions and reductions to 70% of foreign purchases, without counting crude oil.

It is also no surprise, given the high and irrational level of protection, that many sectors ignored demands to keep costs down and increase productivity.

Finally, we should also mention as a factor of heterogeneity the preponderant presence in

Brazilian industry of a contingent of small and medium enterprises, the vast majority of which are operated by individuals or families. According to the 1980 census, in the 19 branches of industry, microenterprises and small and medium enterprises as a group were responsible for 56% of value added and 96% of the number of employees.<sup>1</sup> We will have to return to the problem of small and medium industry when we try to define the strategy.

### III

#### The basic ideas of the new strategy

After these reflections on the present state of Brazilian industry, we should consider what signals Brazil wants to send, both to itself and to the rest of the world, regarding its plans for future development.

It seems to us that these signals consist mainly of the following:

a) The country wants to return to the path of modernization. This had its already-known limitations, and even gave rise to a good deal of structural heterogeneity between the economic, social and political fields. Nevertheless, it showed Brazil's desire to develop economically according to modern patterns. The country's roots, with their known limitations (related to exacerbated individualism and the dualism of the State, which has one modern face and another paternalistic face) do not impede the process of industrialization and urbanization, with a growing autonomy of civil society *vis-a-vis* the tutelage of the State.

b) The new strategy will be applied from the perspective of *growth with redistribution and reforms*. Growth is considered indispensable for modernization, including social and political modernization, but it is combined with a social strategy, capable of leading to the gradual creation of a mass-consumption market and, the gradual reversal of the factors that lead to a concentration of income and the rapid reduction of absolute poverty.

c) The new industrial strategy means essentially that Brazil must reaffirm its commitment

to industrialization and enter a new stage of that process. Brazil must begin a new phase of advanced industrialization, selectively and gradually incorporating high technology with a view to generating dynamic comparative advantages. This new phase is also characterized by the general development of Brazil's industrial competitiveness so that it can supply the domestic market more efficiently and expand exports.

d) Brazil's crisis is mostly of internal origin. It stems from the country's political and economic situation (although it also has an external cause linked to the public sector's limited capacity to invest). For this reason, the solutions should be sought essentially on the domestic front. Brazil should try to create a national consensus aimed at defining a development model; at paying attention to the more obvious political conditions of growth; and at considering in an interrelated way the serious short-term crisis (to avoid hyperinflation and gradually reduce inflation), the medium-term perspectives and the major national questions. Only such an integrated vision will make it possible to return to sustained growth. This does not prevent, but rather implies, that external economic problems

<sup>1</sup>The Institute of Developing Economies in Japan pointed out: in 1983, nearly two million Brazilian enterprises declared that they had *no employee* (67% of the total of all establishments). The study suggests an idea of the size of the informal market, estimating that such enterprises have around six million employees; i.e., something less than 20% of the total number of employees in the urban zone.

should be faced at the same time, especially the problem of the debt and the linkage with the world economy.

e) The country is attentive to the new industrialization trends in the world and to the new realities of the increasingly global nature of the international economy and expansion of common markets on several continents. In view of this new world movement, it tries to become involved more efficiently and more rationally, directed by an affirmation of its interests, but within the modern, not isolationist, vision, perceiving the opportunities and the risks of this involvement.

Some of the implications of the new strategy are worth examining more closely.

First, the sources of dynamism. Brazil already learned how, mostly in the 1970s, to develop a growth dynamic centred on investments to meet the expansion of the domestic market (which corresponded to close to 85% or 90% of industrial growth up to the end of the 1970s), but which at the same time invested to substitute for imports and increase exports. Preferably, both goals were sought simultaneously, as happened in the case of basic inputs and capital goods.

Attempts are now being made to recover this dynamism, adapting it to the new circumstances. Naturally, the role of import substitution in the traditional sense, which implied large blocs of new sectors, is more limited, since the country just finished a long cycle of substitutions (the 1974 strategy). However, since Brazil is not in the vanguard of industrialization or technological progress, import substitution is always needed. It is a permanent process, although with different phases, depending on how far behind the country has fallen. It is evident, then, that once the basic-input sectors are installed —petrochemicals, steel, paper and pulp, non-ferrous minerals, fertilizers— progress can be made in the domestic production of more elaborated products in these areas (third and fourth generation products) and their ramifications in several directions. The same can be said, selectively, about some new kinds of equipment, mainly related to informatics.

However, the most important point is that import substitution will be linked with the new phenomenon of world-wide industrialization:

high technologies, like informatics and electronics, biotechnology and the new materials. For example, import substitution and the incorporation of new technologies are interrelated, since they bring to the country production of new electronic controls for capital goods and for local electronic products, or of digital components for electronic data-processing equipment, communications, laser, etc. Specious discussions aside, we will consider both import substitution and the incorporation of new technologies in general, recognizing the importance of the role which they have to play in the strategy. Let us consider why.

It is no doubt important to incorporate the new technologies, selectively and with a definite strategy for each one. First, because in themselves they offer a dynamism which will contribute to growth. It is a question of the well-known process of Schumpeter's analysis, in which innovations and new products give rise to new investment cycles, whether large or small.

Moreover, by simply observing the tremendous technological and managerial heterogeneity in the Brazilian industrial complex, as well as the diversity of factors upon which the competitiveness of the country in the three main categories of export manufactures depends, we can see that these new technologies assume another very important function during the present stage: to make possible the technological updating or modernization of a great number of industrial branches. The process should certainly be carefully conducted, attending to the situation of each sector, with criteria of macroeconomic logic that take into account overall employment in the economy; it is not a question of modernizing simply to modernize.

This brings us to the problem of industrial competitiveness. We repeat *industrial* in order to emphasize the important concept of competitiveness, analysed in the well-known study of Fernando Fajnzylber (1988). It is impossible to try to base the competitive capacity of exports on large real devaluations of the exchange rate and on stable wages, except in emergency situations. This procedure destroys the social structure of a country in the long run.

The exchange rate must certainly be realistic (the exchange can even be a little above parity with purchasing power, without considering the

effect of external inflation) and real wages should be governed by productivity increases. However, competitiveness has its own essential dimension, related to industrial productivity. In that dimension, competitiveness is partially connected with technological advancement and can include the new technologies, but it is also connected with all the other factors that condition operating costs and investment, including the correction of the distortions in the current industrial structure. At the same time, the question of employment and the well-being of the population must be taken into account. Competitiveness cannot be economically and socially destructive as a result of a recession or lower real wages.

After all, why do we need more competitiveness?

Basically because we want an economy with rising real wages, without detriment to highly dynamic employment; and in order to avoid inflationary pressures, this has to be obtained through productivity increases. Also, it seems to be the time to begin to consider the perspective of the domestic consumer, since the economy is integrated and diversified, and its initial stages of industrialization, in spite of its emergent character, are apparently over. The domestic consumer, as far as possible, must obtain good quality and a good price. And finally, because we want to base the conquest of external markets on concrete economic factors, like those referred to, and not on the artificial use of the ratio between the exchange rate and wages.

Competitiveness, then, has a domestic objective—to serve the consumer—and an external objective—to improve exports. In both cases, it should provide ever larger real wages and be consistent with the growth of overall employment.

Another aspect that deserves comment is the following: the strategy was already defined in accordance with a dynamic based on the expansion of the domestic market designed to attain simultaneously import substitution and the incorporation of new sectors, as well as an increase of exports. In this process, it could be to the country's advantage to have a progressive rise during a determined period of time in the coefficients of exports and imports, in so far as the former have been low (except in an atypical year like 1988), and the latter even lower (5%).

The idea would be to increase exports and imports to rates somewhat above those of the gross domestic product (with a higher differential in the case of imports) but to maintain at the same time a commercial trade balance of the order of US\$12 billion, or somewhat more, to pay between 50% and 60% of the interest on the debt.

Emphasis should be given to the importance of first defining the objectives, in order to give meaning, for example, to the discussion of matters such as the trade surplus and the export and import coefficients. It is a question of making a new development strategy viable, from a perspective of growth with redistribution and reforms. The surplus and both coefficients are instruments of this strategy, and should be considered as such in order to judge whether or not the proposed definitions should be maintained. The element which makes it possible to evaluate them is, above all, their functionality within this strategy.

For example: why increase imports? Essentially in order to grow more, to modernize certain industrial sectors and to increase the competitiveness of exports. Far from hurting domestic industry, the goal is to make it more solid, since it will be more efficient when it is up to date. In other words, more production goods should be selectively imported, and not more consumer goods (except marginally). There would emerge an industrial structure located on a higher level of competitiveness; i.e., a higher level of resistance to the incursions from the exterior and a greater dynamism in the search for external markets.

And why increase exports? Also in order to grow, through a greater use of domestic factors of production (manpower, natural resources, intermediate products, machines); and, in the following stage, to increase the domestic market, to the extent that these additional factors lead to the purchase of more goods and services within the country. At the same time, exports serve two other ends: they finance the larger amount of imports desired, without increasing the external debt; and they pay the interest on the external debt, as was already said. Edmar Bacha once pointed out, correctly, that it made no sense to think that Brazil could become an export platform. However, it does make sense to raise the

coefficient of exports during the next few years, in the gradual way that has been proposed.

Having already dealt with the aspects of the strategy that are related to the external sector (exports and imports), we now examine more closely its incorporation into the international economy.

Keesing (1967) stated very accurately the idea of an "outward-looking" strategy. For him,

"outward-looking" means essentially a strategy that gives constant and deliberate attention to trends in commerce and industrialization beyond the borders of the country itself, as does Japan and the supercompetitors of Asia. This constant study of what is happening in the world puts them in a position to take advantage of future opportunities and to anticipate eventual risks.

## IV

### The strategy: perception of the new comparative advantages and the ways to obtain them

After having examined the trends in industrialization throughout the world and the trends in competition on a global scale, we are better equipped to analyse the implications of the industrial and technological strategy suggested.

As pointed out, this strategy, within a selective and flexible focus which differentiates it from the policies adopted in the initial phases of our industrialization, comprises two major lines of action:

a) To explore the new dynamic comparative advantages of the country, which are still not completely known, acquired through technological advances already under way: electronics, informatics, the linkage of these with mechanics, advanced industrial chemicals, the use of new materials and biotechnology. This technological and industrial development is urgent, especially because of the lack of initiative in the last few years and the backwardness of certain more modern sectors of Brazilian industry.

b) To fortify national competitiveness, domestic and external, by developing technology and management where it is justified from a macroeconomic viewpoint, and by correcting the distortions linked to excessively widespread import substitution or to a comfortable domestic climate, the result of an excessive or irrational protection. In the overall effort to increase competitiveness, the social consequences of the strategy will certainly always have to be taken into account, especially those related to employment.

A third line of action can be added to these two basic lines, in the following terms:

c) To complete the effort to carry the logic of industrialization and modernization to the sectors which form a necessary part of a diversified and integrated economy, such as agriculture, functional services (industrial services of public utility, transportation, communications, storage, modern commerce, finances) and mining.

Unlike what happens in economies like those of Japan and Korea that lack natural resources, the exploitation of Brazil's comparative advantages can never lose sight of the tremendous opportunities available in sectors such as agriculture and mining.

If we consider the development of the first line of action, we should ask what are the consequences of the new world-wide technological pattern for the comparative advantages of the country. This new pattern raises two major questions. The first concerns changes in the very concept of the factory, in manufacturing processes and in the organization of production. The other has to do with the effects of the new materials and new productive methods on the use of traditional raw materials (given that these new methods and materials save on inputs), and with the consequences of biotechnology on agricultural productivity.

With respect to the first question, it must be remembered that the traditional technological pattern—which goes back to the beginning of



the century and the revolution initiated by Henry Ford in the automobile industry when he set up assembly lines— was designed to produce a standardized product on a large scale (mass production methods). Up till a short time ago, automation did not affect that logic, and only meant a greater use of machinery and reduced use of labour, a factor which was scarce in the industrial economies.

The new technological pattern, whose characteristics are *flexibility*<sup>11</sup> and *integration*, is capable of *being applied in a general way to all industrial activities*, and not only to mass production, like automation in the previous pattern. According to a special study of the Economic Commission for Europe (ECE) of the United Nations (1986), there are two new important advances:

i) In mass production processes, the control of the machines with computers makes it possible to increase the flexibility of the productive system, in so far as it can be used to manufacture innumerable variants of the product, with minimum transition times. At the same time, the need to maintain stocks is considerably reduced, and it is easier to adapt to market preferences. Even the automotive industry (birthplace of the concepts of the assembly line and automation) is moving away from mass, standardized production, and moving towards the production of differentiated lots in large volumes.

ii) Nevertheless, the technology of controlling manufacturing with computers has even greater potential *in traditional activities of production in small and medium-sized lots* (a very important development, considering that even in the United States 75% of manufactured articles are produced in lots of between 50 and 100 units).

While the previous model of automation is essentially oriented towards diminishing the cost of labour per unit produced, the new technological pattern is aimed at a better use of all the items that enter into the total cost (even time); at reducing stocks of products, either in process or finished; at completely integrating the stages; and at obtaining superior quality and more guaranteed products.

The second type of advance can be of particular interest for developing countries, in so far as it means improving productivity without neces-

sarily using automation. It is a question of obtaining continuous productivity increases, through successive improvements in the organization of production (new technologies of social organization of production —TSOP—, as opposed to technologies of flexible automation —TFA—, in the terminology of Tauile). This eliminates losses of time and materials, and high quality products are obtained, with no defects.

These improvements can accompany or not a greater automation. The use of the new technologies of social organization of production change the productivity of automated systems (which before was almost a datum, once the learning stage was over) or of those that use few machines. For example, a recent study of Japan's Institute of Developing Economies recommends the use of techniques of this kind in Brazil's small and medium-sized industry: total quality control, "kanban" or *just in time*, *zero waste*, etc. Added to these are design and manufacturing methods that computers use (*computer-aided design* —CAD— and *computer-aided manufacturing* —CAM). We thus have different forms of *software*, to give them a name, which do not imply automation, and which, according to Henrique Rattner (1988), are already being used successfully in small and medium-sized industry in places like France, Italy, the Netherlands and the Federal Republic of Germany, through programmes that count on government support.

With respect to the second type of question raised by the new world-wide pattern of technology, much has been said—including the well-known article of Peter Drucker in *Foreign Affairs* (1986)— about the trend towards less demand for traditional raw materials (steel products, copper, aluminium). This is because the new methods of production need less materials per unit of product, and also because the incorporation of new materials (ceramics and plastics for the automobile industry, semiconductors for the microelectronic and informatics industries, optic fibres for the photoelectronic industry, superconductors for the transmission and storage of energy, etc.).

Having analysed all the practical consequences, we may observe that the principal effect in the medium term could be the use of new materials, especially for new uses, and not so much the substitution of old materials. The effect of

substitution is certainly irreversible; but perhaps its repercussions will not be dramatic in five to 10 years (except in Japan). This is not to deny the importance of the problem, but only to say that we shall need time to prepare for it.

With respect to biotechnology, and without trying to underestimate the change that it will produce in the conditions of agricultural productivity when advantages from the climate and abundance of land are reduced, its effects tend to be rather gradual. Nevertheless, it is certainly necessary to be alert.

There is one basic idea that should be stressed: according to the new technological pattern, the intensive use of technology in a great number of industrial sectors will mean in practice that *many of the comparative advantages will be created* by the basic aptitudes the country manages to develop. Relative endowments of natural factors (work, land, natural raw materials) will become less and less important. However, it is evident that the best results will be obtained by taking advantage—using the new technologies—of the factors that are abundant in the country, whether semi-skilled manpower or natural resources, or more highly specialized manpower (less abundant, but, even so, much less expensive than in the developed countries). This last factor, for example, can create competitiveness even in technologically very advanced sectors, such as international engineering services and computer programming (*software*).

In short, we have to use our radar to obtain new comparative advantages, within the specificity of the conditions the country offers.

Having examined the implications of the new technological pattern, we can have some idea of the possible new areas of Brazilian competitiveness. In doing so, we must strive to be specific. As an initial approximation and taking as a reference the classification of Brazil's factors of competitiveness presented in the IEI study (Federal University of Rio de Janeiro), we can point to the following trends in Brazil's dynamic comparative advantages:

a) The establishment of a new group of sectors, related to the generation of a minimum of critical mass in the high technologies, through selected production lines and specific strategies for each new technology: informatics (physical components and logical components), electron-

ics, and the linkage of both of these with mechanics to form a mechatronic industry; new materials and biotechnology.

With respect to new materials, their highest development is expected in Japan, where, by the year 2000, 40% of the manufacture of automotive vehicles will employ new materials. Brazil could have some opportunities (new metallic alloys, ceramics, quartz, since 90% of the world reserves are found in the country). With respect to biotechnology, the more simple techniques are relatively easy to dominate.

High technology, particularly informatics and electronics, generally includes short-cycle products (subject to rapid obsolescence), and these brief cycles tend progressively to become even shorter.

For this reason, Brazil could possibly develop along those lines, with a policy that includes a rapid absorption of technology and a certain technological capacity of its own, but in association (with the large world producers, through the purchase of technology and the establishment of corporations), and only exceptionally in the vanguard. Likewise, as suggested below, Brazil will have to create a special and efficient system of incentives.

The computer industry, with a reasonable structure already in place, will have to move on to a stage in which it will become more competitive and more solid technologically, economically and financially. Its costs are still very high, especially because of the excessive number of enterprises, which prevents the industry from taking advantage of economies of scale. An effort should be made, then, to restructure the industry in such a way as to augment the scale of a certain number of adequately capitalized enterprises; to induce them to make a greater effort to adapt and improve (by reducing technological passivity); and perhaps also to seek some markets abroad.

In general, the new technology sectors could be expanded with a view to looking for good opportunities to incorporate themselves into external markets. Such opportunities certainly exist for computer programmes (*software*), owing to the critical mass already in place and to the greater competitiveness that it has shown. Moreover, this can be accomplished with a small investment. Some of our own vanguard technol-

ogies —such as the exploitation of petroleum in deep water and the transmission of electric energy in continuous current over long distances— can also be adapted for a development of this kind.

It is useful to recall that this first group of activities will play an important role in the modernization of almost all the other groups, through a case-by-case analysis which will consider the aspect of the economic feasibility of the change and the desirability of adopting it, according to macroeconomic criteria, for example, employment.

Given current synergies, Brazil's development should be conducted through an integrated policy for informatics, telecommunications and consumer electronics, which is important even for the feasibility of the production of microelectronic components in the country.

b) Development of a line of strategic investments, with a high priority for the group of sectors whose technology could be mastered and whose products have a long cycle. These are mainly capital goods, high-quality steel, components for durable consumer goods and capital goods, and the aeronautical industry (which is approximately equivalent to Group III in the IEL study of the Federal University of Rio de Janeiro). Naval construction could also be included in this group. The automotive vehicle industry is a special case. In order to reach more demanding markets, it will have to develop new models (by introducing automation in the productive process, as well as by using electronic components and new materials).

Since they are long-cycle products, whose technology is advanced but does not change very rapidly, Brazil could choose the appropriate sectors and use them to become a world-level leader (in the case of the aeronautical industry, only in a certain line of small planes; in the others, without that kind of limitation).

Brazil is already exporting high-quality steel products to some 50 countries, and dominates the technology; it can ensure, then, its place in the world-level vanguard. The international trend consists in a small number of leading firms coming together, while the other producers begin to function as associates.

Brazil's competitiveness can also extend to different kinds of special metal alloys, where it has advantages because of its natural resources.

The situation of capital goods is more complex. Nevertheless, it makes sense that the country try to obtain a place in the international vanguard. This sector also tends to be concentrated in a small number of countries and producers. The reason is that the developed nations, with a few exceptions, are losing their competitiveness because of the high cost of specialized labour (which the sector uses intensively) or because of the rising revaluation of the European and Japanese currencies in relation to the dollar. The adjustment process of the capital goods sector is especially felt in the United States, but is also growing in Japan. The Republic of Korea and the People's Republic of China are emerging as large producers (the Soviet Union's technology is out of date).

Brazil has a great opportunity, because it can employ specialized labour at reduced costs, which ensures products of recognized quality in competitive conditions. However, in order to exploit this advantage, two conditions must be met: Brazil must ensure access to and dominate the technology, and count on considerable support from the domestic market. This second condition is difficult at the present time, since orders from the State are paralysed and the private sector is hesitant to invest.

Consequently, in order to reaffirm the international competitiveness of the country and aspire to a growing participation in the vanguard, the sector must apply a programme that is consistent in:

*Technological modernization.* The machine-tool segment needs to be modernized through a greater use of numerically controlled machine tools (NCMT) and machining centres. There is an even greater need for modernization in the made-on-demand capital goods sector, which entails numerically controlled machine-tools, machining centres and computer-aided design systems in project activities.

*The security of being able to dominate the technology.* This is only possible with a prosperous domestic market, which confers a better position for negotiating with suppliers of technology during the stage in which the national enterprise develops its capacity to absorb, adapt and then generate that knowledge. Also, such domination is only obtained on the basis of an incentive system for the firms in the technological sphere.

*The gradual introduction of new kinds of equipment*, incorporating the new technological pattern (informatics) to the extent allowed by domestic demand and export alternatives.

*The application of a broad programme to gain external markets*, which will only acquire the necessary dimension if it is associated with the effort to modernize and dominate the technology.

*Consolidation of the country's capacity for competition in the basic-input group* (Group II in the IEI study of the Federal University of Rio de Janeiro). The priorities are the following: i) paper and pulp, whose industrial establishment is modern, but out of date with respect to the application of informatics for the automatic control of processes; ii) steel, which also has a new situation with respect to technology, especially in heavy flat and rolled steel, but needs some investments to modernize and link up with the capital goods industry in order to develop the country's basic technological project, and iii) chemicals and petrochemicals, whose processing installations should modernize through automation and the application of informatics to process controls. In this latter sector, more complex segments of petrochemicals (plastics of advanced engineering *et al.*), and more elaborated chemicals should be incorporated.

*The revitalization of more traditional spheres of industrial activity*, such as textiles, footwear, pharmaceutical products, certain food products (especially milk and meat products) and the whole range of construction materials. These correspond to Group I of the above-mentioned IEI study.

*The conservation of the competitive capacity of agroindustrial complexes*, like soya and orange juice. It would be expedient to review the situation of the agroindustries of sugar, alcohol, now very dependent on subsidies.

With respect to the development of Groups I and II, two questions should be considered which are certainly of interest for the future of industry in the country. The development of the North-east and Amazonia (with a selective character for the latter) should be priorities for the national strategy. However, the policy applied in both regions should not be allowed to create insuperable distortions.

The first point refers to a re-examination of the Foreign Trade Zone of Manaus. This should be maintained as, moreover, is provided for by the Constitution. However, the original project must not be distorted. It was conceived as a mechanism to provide the area of influence of Manaus with the dynamic effects of a pole of integrated growth, both industrial and agricultural. That means, in this case, ensuring that the integrated character be maintained, even with respect to feeding the population of the zone with the agricultural production. Given the high level of current subsidies, the Foreign Trade Zone should also be prevented from assuming dimensions that are disproportionate with its purpose.

An observation can be made regarding this last point. The incorporation of high technologies benefits a great deal from the interconnection between informatics and electronics (physical components, peripheral elements and logical components) and consumer electronics. It is reasonable to keep part of consumer electronics in the Foreign Trade Zone; but the future of the country's consumer electronics cannot be centralized there, and even less so the future of the new technology industries. The whole modernization of Brazilian industry and the exploitation of the new comparative advantages depend on these industries. For this reason, such sectors have to be developed essentially at competitive costs, wherever their location is the most efficient.

A second issue which needs to be re-examined is the decision regarding the programme of export processing zones.

The industrial development of the North-east should be pursued through: integrated industrial complexes, especially those that use the region's natural resources, like the petrochemical pole of Bahía, the chemical complex of Alagoas and the alcohol plant in Pernambuco; the agroindustrial projects in which the region has competitive conditions, such as vegetable oils, fruit juices, tinned fruits, etc.; the export projects of manufactured products or their production for the regional market, made feasible by regional fiscal incentives; the exclusivity of the special import arrangement (or tax reduction or exemption) in certain sectors such as textiles;

the preference in locating projects of State enterprises, without detriment to their economic and financial feasibility.

With a creative approach, a whole system of differentiation can be used to favour the Northeast in the framework of credit and fiscal policies of the Union, particularly when it is a question of ensuring the capacity to export.

However, it is not expedient to use mechanisms like those of the export processing zones, which Brazil stopped applying at the beginning of the 1970s, a time when they may have been more justifiable. These zones, which are real enclaves, were created by the so-called "tigers" of Asia when they were beginning to industrialize, as a means of offering attractive minimums to foreign capital, which knew practically nothing of those countries. Brazil at that time already was receiving a large flow of direct foreign investment, and did not need such a measure. On the contrary, instruments were used such as the concession of fiscal benefits to special export programmes (BEFLEX), which are integrated into the industrial structure of the country as temporary mechanisms for promoting determined export lines.

Having presented the idea of the new national comparative advantages, mention should be made of some conditions for these to become effective in practice. These are mainly linked to two kinds of relations which need to be created in a society oriented towards a progressive affirmation of the new technological pattern: a relation of co-operation and not antagonism between the governmental and private sectors; and also a relation of co-operation and not conflict in the system of labour relations (mainly between engineering teams and specialized workers on the one hand, and the management of enterprises on the other).

The first point was emphasized recently in the United States in an important book of Simon Ramo (1988), one of the two geniuses that hold up Hughes Aircraft, and now the president of TRW, Inc., the giant of the aerospace sector. According to Ramo, one of the factors responsible for his country's loss of competitiveness with respect to Japan consists in the fact that Washington and Wall Street (that is, the government and the capital market) have not given enough importance to the role of science and technology, and have allowed the public sector and the enterprises to relate to one another as adversaries. In his judgement, the concept of federal government action being limited only to regulate economic activity is clearly out of date; it should be replaced by another, one of close co-operation and mutual support, without confusing interests.

For the second point, it has become evident that one of the secrets of the success of the Japanese enterprise management teams consists of the relationship of co-operation between the personnel of the enterprises and its administration, with a view to constant improvement of productivity and quality. The price for this is that the different categories of employees share in the better results obtained because of productivity increases.

These are the rules of the new technological pattern, which is characterized by the predominance of research, technology and the better organization of industrial production; by the constant modification of the factors of competitiveness; and by the trend to a competitiveness of global reach, which not only includes the activities of the enterprise, but also important aspects of the type of society in which that enterprise is situated. Those who fail to perceive this reality will not meet the challenges of our times.

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## Social structures and democracy in the 1990s

*Marshall Wolfe\**

This article gives a broad overview of the social structures on which democracy will have to be based in the 1990s. These structures continue to be heterogeneous, and the crisis has made them more unstable, as previous aspirations are falling by the wayside and most of the groups are living in conditions of greater insecurity and poverty, although some new possibilities of upward mobility are emerging, even among the most seriously marginated strata. The political parties and movements are in a process of evolution and are unsure of the forces they will be called on to represent and the validity of their traditional ideologies; for the most part, however, they have attained a higher level of realism and a willingness to temporize with a view to the consolidation of broad social pacts at the cost of a reduction in their aspirations and an inability to offer their followers an inspiring mythology.

The State is subject to tensions in three respects: as the symbol and permanent focal point of the national community; as the apparatus or public sector which has to fulfil a wide range of services and regulatory functions for society; and as a function of the credibility of the democratically elected political régimes which, it is assumed, will give concrete form to the ideal attributes of the State and will run its institutions and the public administration to that end.

The democratic régimes must convince society that they are capable of offering a real alternative which will lead to higher levels of well-being and equity. The most promising way of achieving this would appear to be free and rational political deliberation which accepts that there is a constant tension between the principle of democratic uncertainty and the legitimate effort to give the political process coherence and a sense of utility.

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## I

### The present challenge to pluralist democracy\*

During the past half century the peoples of Latin America have experienced accelerating changes in their lifestyles and in their interactions with national societies, the State and the international order. Within a few years, overwhelmingly rural societies became predominantly urban, and the urban as well as the rural environments were transformed too. New opportunities for livelihood opened up in industry and services, although in most countries they did not keep pace with the growth and increasing spatial mobility of the labour force. A heterogeneous "urban informal sector", variously labelled and interpreted, expanded and diversified to fill the gap. Most of the young people gained access to at least rudimentary schooling, and entry into higher education became an uncontrollable flood. Mass communication media and "modern" consumption aspirations reached most of the population. Emigration to the United States and Europe became an increasingly accessible alternative for members of different classes with diverse motives. Interactions with public bureaucracies in their servicing, subsidizing, regulating and repressive functions became critically important to people who had previously had little or no direct contact with the State. Political participation repeatedly waxed and waned, with cycles of mobilization under populist auspices followed by frustration and forced demobilization. Intergenerational changes became so great that the experience of one generation lost relevance as a guide for the next.

Many studies have documented these changes and emphasized the difficulties they imply for the formation of classes with consistent political behaviour and expectations, for social cohesion, or for the achievement of hegemony by any agents trying to mobilize support for projects corresponding to broad national interests (see, for example,

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*Pensamiento Iberoamericano*, No. 6, 1984; Labastida and del Campo, 1985; and Touraine, 1987). The changes were notoriously conflictive and inequitable, continually disrupting the expectations and allegiances of different groups. The political responses were to a large extent clientelistic or corporative, designed to protect individual or group interests irrespective of wider repercussions. The failure of State policies—whatever their pretensions—to overcome the marginalization or exclusion of large parts of the national populations became increasingly obvious. Nevertheless, up to the 1970s in some countries and the early 1980s in others, the changes proceeded in a context of economic expansion that enabled some groups to make major gains in incomes and status, encouraged others to hope for future gains, and permitted the State to expand social services and consumption subsidies of various kinds to the urban majority and to a lesser extent to much of the rural population. The gap between income levels of the rich and poor widened; the poor encountered new forms of insecurity and exploitation; urban concentration made poverty more visible; but for the most part poverty did not seem to become more extreme nor more prevalent. ECLAC and other institutions continued to criticize the real processes of growth and change from the standpoint of criteria of social injustice and squandering of human potentialities, warned of future contradictions, and proposed alternative, more equitable and more dynamic development styles and policies. Government declarations and plans along similar lines proliferated. However, the capacity of the forces dominating the processes to continue on their own terms and overcome political and economic threats seemed increasingly to rule out major structural reforms aiming at greater equity, whether through democratic or technocratic-authoritarian procedures.

Since then, social structures and the positions of individuals in them have continued to change as dynamically and contradictorily as before, but in a context of economic stagnation, declining levels of living, declining State capacity to respond to needs and demands, marked insecurity concerning livelihood, concentration of attention on individual and group survival

strategies, and perplexity or pessimism concerning the feasibility of any *national* policy for overcoming a crisis that has persisted for nearly a decade or even longer, depending on the country.

Pluralist democracy, in the sense of freely elected governments, has re-emerged in Latin America precisely when economic and social structural conditions for its exercise seem at their worst. This is due partly to the increasingly effective and broadly-based repudiation of authoritarian régimes, but partly also to the willingness of the forces dominating such régimes to leave to others the onus of coping with the crisis. It is more surprising that pluralist democracy has managed to survive and to some extent consolidate itself under these conditions. It is a truism that democratic participation and policies responding to popular demands are more feasible when an economy is expanding, so that the poor can gain without serious inconvenience to the rich and the State can capture a higher proportion of the national income for redistributive purposes. Latin American régimes took only limited advantage of this possibility before the crisis, and certainly never convinced the rich of its virtues, but since then ability to tax according to ability to pay has fallen sharply, and ability to use revenues for social purposes even more so. Throughout the 1980s the democratically elected régimes have vacillated between austerity policies that intensify poverty and undercut their own legitimacy, and heterodox initiatives that collapse because of insufficient control over the whole range of relevant factors and actors.

Stable democratic systems call for the presence of political parties with broad support, expressing coherent interests of classes or groups but disposed to enter into realistic compromises and restrain their followers. They also call for a wide range of sectoral and local organizations interacting with the State, making demands on it and defending their members against its excesses, but at the same time relieving the State of responsibilities that it cannot meet with tolerable efficiency and flexibility. The present fluidities, contradictions and insecurities throughout the social structures make the emergence and consolidation of such requisites for democracy even more problematic than before.



At the same time, the failures of the military-authoritarian and one-sidedly market-oriented régimes to cope with the crisis, and the simultaneous loss of credibility of the "real Socialist" model have given pluralist democracy a breathing space. No plausible alternative for the ordering of public choices is in sight, and the most likely outcome if democratic régimes fail is disintegration of the social and political structures into anomic "wars of all against all" —of which ominous symptoms are visible in some countries. Partisans of democracy can take grim comfort in Winston Churchill's maxim: "Democracy is the worst system of government— except for all the others".

Pluralist democracy probably cannot remain indefinitely restricted to electoral choices between parties or coalitions, with the reality of the choice negated by the inability of the resulting régime to escape from crisis management and from multiple vetoes exercised by economic élites, the military, and lending agencies. The next question to ask ourselves is whether the public debate and freedom of organization associated with the present stage can lead to broader democratization of the societies and greater innovativeness in overcoming the seemingly insuperable obstacles.

The crisis of the 1980s and the authoritarian excesses that preceded it have transformed intellectual discourse on politics in Latin America.

Attention has turned from explanations of the inevitability of authoritarianism or of revolution to means of making democracy more viable and more relevant to the needs and cultures of the participants. Spokesmen for different schools have become more disposed to listen to each other and to seek common ground. Dogmatism and exclusivist utopias have receded. The "hyper-autonomy of the cultural actors" noted by Alain Touraine (1987, pp. 118-124) has become somewhat more restrained and the "professional critical tendency" has gained over the "committed prophetic tendency". Researchers have contributed to a picture of the relationships of social structures, cultural influences and political behaviour which is more convincing and assimilable by public opinion than before. Regional forums for debate and institutional settings for political as well as social and economic research have become stronger in spite of the scarcity of resources. The proliferation of essays citing each other and examining democracy in the light of an international arsenal of social and political theory might leave an impression of intellectual élites interacting with each other. However, parts of the discourse are penetrating the mass media and the visions of political leaders, while some political theorists have entered the political arena with considerable success (the bibliography lists several collections of essays and research reports on this subject).

## II

### Changes in social structures and the precariousness of social cohesion

The researches and debates suggest the following unavoidably oversimplified evaluation of the different collective actors or components of the social structures in relation to the prospects for pluralist democracy:<sup>1</sup>

<sup>1</sup>Ghai and Hewitt de Alcántara (1989) present particularly interesting hypotheses on present directions of change in different social classes, some of which have been introduced in the following pages.

#### 1. *Economic élites*

Changes among the groups previously dominant in the economies and societies have been diverse, but the elements best able to cope with the crisis have been those who are least identified with production for the domestic market and are in a position to protect themselves against inflation as well as taxation by keeping their resources in hard currencies abroad and by investing flexibly

at high interest rates or by affiliating with transnational enterprises. In some countries, the drug traffic has also become a notorious source of direct and indirect gains which greatly exceed those to be had from legitimate enterprises and are moreover impervious to the crisis. These groups have been able to increase their consumption, largely of imported goods, in the midst of shortages of foreign exchange and impoverishment of the majority. The strengthening of such economic élites, whose interests and cultural standards are transnational, obviously clashes with the consolidation of pluralist democracy in countries with open and basically capitalist economies. Their lifestyles are a provocation to the rest of the population (in the double sense of a stimulus to consumerist imitation and an irritant) and a major factor behind insufficient national ability to accumulate and invest. They are not disposed to make sacrifices for the national interest, whether because of skepticism concerning the efficacy of government policies or indifference to the general welfare. In general, they intervene in politics through intermediaries rather than as open contenders for office, and their political purposes combine shrinkage of the State's role with use of State power to protect their immediate interests. The nature and location of their assets prevent the State from taxing them or, as a last resort, expropriating them, as could be done in the case of landholdings and industries. The inducements they would require to repatriate their wealth and invest in production might be too high for a democratic State to offer.

Of course, this is not the whole story. Important components of the economic élites would benefit from strengthening of domestic markets and from social cohesion supporting stable expectations, and they have shown considerable dynamism in expanding and diversifying export production. Many export-oriented entrepreneurs are just as interested in mutually supportive relationships with the State as have been the industrialists seeking protected domestic markets, and are not captivated by neoliberal ideology. Compatibilization of their basic interests with those of other groups through the political process is feasible in principle, and this objective underlies the recurrent efforts at social pacts. The content of the bargains that might be

struck depends too much on differing national situations and on the capacity of the State for it to be discussed here. For the present, unfortunately, the fact that major resource owners are partly divorced from national interests and policy decisions, in combination with the debt burden, can practically paralyze the capacity of democratic régimes to respond to popular demands.

## 2. *Middle strata*

Some groups among the middle strata have been able to cope with their problems through individualistic strategies similar to those of the élites, or through emigration outside the region. A good many professionals and managers, starting with some capital and relevant experience, have been able to start successful small businesses. Particularly among the salaried middle strata, however, the general trend seems to have been toward greater insecurity, shrinking incomes, and a widening gap between realities and the expectations of modernized consumption and upward intergenerational mobility that became entrenched during the years of economic expansion. During the 1950s and 1960s many observers looked on the rise of the middle strata with excessive complacency as a basis for democratic progress. This view was followed by probably excessive depreciation as the real middle strata, impelled by the educational system and the mass media toward public employment and consumerism, found themselves pushed into authoritarianism by manipulated fears of populist or socialist mobilization of the masses. They are now left stranded by the "concentrating and excluding" style of development proposed as the way out of the crisis.

Pluralist democracy can hardly survive without the active participation of major elements in the middle strata and at least the passive acceptance of the remainder. The intellectual groups creating and disseminating the present discourse on democracy belong mainly to these strata. A key question is whether, and to what extent, the middle strata will be able to keep within bounds their predisposition to seek particularist advantages from democratic political systems. This predisposition must have been intensified by their present plight and their fears of any

downward redistribution of incomes and State services, since the State finds it easier to curb their entitlements than those of the rich.

For present purposes, one component of the middle strata deserves special attention, namely, that which embraces the technocrats, professionals and bureaucrats in the public sector; they will be discussed again below, in relation to the capacities of the State. Up to the 1970s, in different countries, they were among the most vigorously growing components of the middle strata, and the main source of employment for the rising output of graduates from the universities. Political purges and debureaucratization campaigns periodically change their composition at the higher levels and introduce insecurity, but have not stopped their overall expansion. During the 1980s they have in most countries maintained their numbers or even increased them, in spite of the State's shrinking resources, but at the price of sharp reductions in their incomes and declining working conditions (Tokman, 1982, pp. 413 and 414). This naturally generates neglect of official duties, corruption, and a search for additional sources of income that amounts to a kind of "informalization". It also strengthens corporative self-defensive propensities, as political régimes and public opinion sharpen old stereotypes of public employees as a burden, an oversized, over-expensive and unresponsive instrument for providing services or accomplishing State policies. This situation motivates public employees to try to strengthen alliances with clienteles in the societies, but such alliances require the ability to provide real services to the clienteles, and this ability is now quite weak.

The higher-level professionals or technocrats in the State apparatus face somewhat different contradictions and sources of insecurity, along with the general lack of resources to carry out the policies they are supposed to be administering. Their self-confidence, together with the confidence of the political leadership in their expertise, have presumably been weakened by the crisis and their previous inability to foresee or forestall it, but the State's dependence on expertise to manage the crisis has become greater than ever before.

Even if the bureaucracies can protect their levels of employment, they can no longer absorb much of the output of higher education, and this

presents additional unknown factors for the future of democracy. During the 1980s, student movements have shown relative restraint in taking advantage of the opening of democratic freedoms that followed the extreme repression to which many of them were exposed during the 1970s. However, it is not at all clear what their longer-term response will be to a blocking of aspirations to upward mobility, combined with waning of the revolutionary utopias that inspired many of their predecessors in the universities. One probable consequence for the minority of youth able to enter private universities offering higher-quality professional education would be a greater propensity to seek opportunities abroad, thus contributing to the transnationalization of the better-off. For the majority, whose qualifications have in any case been devalued by the deterioration and overcrowding of the public and cheaper private universities, the prospect is for a kind of marginalization through improvised self-employment or low-paid jobs in commercial or other services, and possibly for a new wave of participation in social movements of the disadvantaged. Past experience shows that such participation can be both invigorating and disruptive for the movements and the democratic political system.

### *3. Urban wage workers*

Industrial and related workers have undergone shocks even more severe than those experienced by the salaried components of the middle strata, combining material losses in incomes and levels of consumption with intensified insecurity concerning their place in society and their future prospects. The drastic cuts in real wages of up to 50% and the static or declining numbers employed in modern industries in the context of a continually growing urban labour force are well known. The dividing line between such wage workers and the "informal sector", never entirely clearcut, has become even more indistinct. Working-class families have had to combine multiple sources of income, including various forms of self-employment; women and children have had to contribute to family livelihood by taking whatever opportunities offered themselves.

The ability of most trade unions to protect their members' interests and intervene in national policy-making, after partial recovery from the repression suffered during the 1970s, has declined along with the numbers of workers in occupations that were previously strongholds of militant unionism. The most dramatic case is the eclipse of the Bolivian miners—core of a union movement that since the 1950s could often challenge the State itself—as a result of the decline in employment in the State mining corporation, from more than p. 32).

Probably just as important for assessment of the prospects for pluralist democracy has been the weakening of convictions concerning the "vanguard role" of the "proletariat". Up to the 1980s, most of the ideologists and political party leaders claiming to represent the working class, along with much of the trade union leadership, assumed that this class would continue to grow in numbers, organizational strength and class consciousness, and eventually become the central actor in a socialist transformation of the societies. "Developmentalists" also assumed an increasingly important role for the organized working class, without endorsing the revolutionary conclusion. The extent to which the working class itself internalized this outlook is not clear, but it has undoubtedly been a major source of hope and self-confidence. For the most part, the major working-class mobilizations in Latin America followed populist or corporative rather than socialist orientations. As Marxist interpretations of the role of different classes and acceptable class alliances changed and became more diverse, political usage of the term "proletarian" came to amount to little more than a label through which different factions of non-proletarian intellectuals and activists asserted the correctness of their strategies.

However, the conviction that the proletariat has a foreordained role and right to the central position in alliances has been an important constraint on the formation of coalitions of democratic political forces and on the capacity of class spokesmen to interact with organizations based on the middle strata or the peasants as allies with equal rights to shape policies. Present realities have disintegrated such exclusivisms. The highly visible difficulties of the "real Socialist" countries, which up to the 1980s offered plausible

alternatives to a capitalist future and were sometimes direct mentors of working-class parties, have undermined previous dogmas. So have the trends away from working-class self-identification of the social democratic régimes of Western Europe.

The overall implications for pluralist democracy are too contradictory and indeterminate for adequate discussion here, but several of the studies cited above have tackled them with the attention to national differences that they require. Some political leaders and ideologists, in the midst of very difficult situations and sometimes personal danger, are trying to rethink the lessons of the recent past and the future of the working class within settings so far removed from their previous expectations. Working-class organizations—unions as well as political parties—retain a considerable ability to mobilize wider groups, including parts of the middle strata as well as the urban and rural poor, for mass protests against austerity policies and against denial of democratic rights. Their position in the productive process continues to give them a greater propensity to broad organization and confrontation with major questions of economic and social policy than other disadvantaged groups. Insecurity and the discrediting of past illusions do not necessarily mean the loss of convictions concerning the possibility of a juster social order, and if leadership proves equal to the challenge they might stimulate greater innovativeness in pursuing this utopia. Closer approximation to the living conditions and survival strategies of the urban poor might result in a diffusion of organized working-class influence as well as the blurring of working-class identity. The crisis stimulates militancy along trade union lines in parts of the salaried middle strata, such as teachers and bank employees, as well as rapprochements with relatively new social movements mobilizing women, ethnic groups, and environmentalists.

#### 4. *The urban remainder*

When one comes to the rest of the urban population (in some cases now the majority): the "poor", the "sub-proletariat", the "informal sector", the "marginalized", according to various

attempts to label and classify them —the numerous sources of information and speculation remind one of the story of the blind man describing the elephant. These groups were heterogeneous before the crisis of the 1980s, and are more so now. The most general trend among them has undoubtedly been toward deeper impoverishment, as their numbers have increased, along with overcrowding in their settlements, shrinking opportunities for wage labour, inflation outrunning incomes, and curtailment of State services and subsidies. At the same time, they have become more complexly integrated into the economies and the political systems than before. At least in some settings they have displayed greater adaptability in their responses to crisis and in the local practice of democracy and reciprocity than have other components of the population. The decline of production in the "modern" consumer goods industries, of capacity to import, and of consumer purchasing power have given more scope to small unregulated industries producing cheap goods for the domestic market, including the market within the informal sector itself. The same trends have probably motivated large enterprises, including some transnationals, to make more use of the informal sector for piece-work production and for marketing of products through street vendors. And in a paradoxical seizing of new opportunities linking the most marginal strata with the most important new sources of capital accumulation, some groups have been able to rise out of poverty through participation in the drug traffic.

The previous networks of neighbourhood self-help, which have a long and well-documented history, have evolved and probably grown stronger under the spur of necessity, and have been helped toward greater self-confidence by various external allies. The reemergence of political democracy and competition for electoral support, and in some cases participation with other classes in mass mobilizations against oppressive régimes, have enabled parts of the groups in question to make their needs heard and to relate themselves to national issues, after years of forced exclusion.

These tendencies have encouraged some currents of opinion to detect the seeds of a new social and economic order, whether communit-

arian or individualist and market-guided, but in both cases freeing itself from domination by bureaucracies and also from discredited prescriptions for "development". Some supporters of variants of this position have offered blueprints for progress calling for participation by a self-restraining de-bureaucratized State inspired by new values and conceptions of development.<sup>2</sup> Others look rather to a withering away of the State, along with existing patterns of economic and social relationships, through the autonomous evolution of social movements or a "new majority" and view the present crisis as a positive contribution to this process (Esteva, 1988 and Quijano, 1988).

For the present, no generalization can be made with confidence. All of the interpretations may have a limited validity, like the blind man's description of parts of the elephant. Among the urban poor, solidarity and anomic individualism will no doubt continue to coexist and evolve conflictively throughout the foreseeable future. As in other social strata, authoritarian and clientelistic cultural propensities will contend with strivings toward equity and self-determination. The communitarian anti-State prescriptions for direct democracy and reciprocity are likely to remain secondary (although politically relevant) influences in the evolution of the urban majorities. Paternalistic-bureaucratic solutions to their problems will be neither effective nor compatible with democratic values, but one cannot draw a consistent dividing line between such pseudo-solutions and indispensable State support for basic services and measures to relieve critical poverty. The question then comes to the fore whether and how the heterogeneous urban lower strata can formulate and represent their interests in an organized way, negotiating with the State and other social groups so as to overcome the extreme discrimination or exclusion they now experience. The present discussion will return to this question later. The urban majorities during the 1980s have shown more forbearance than might have been expected in the face of austerity policies applied by democratically elected régimes under external pres-

<sup>2</sup>Communitarian and market-oriented variants of blueprints addressed primarily to the State are represented, respectively, by *Development Dialogue*, No. 1 (1989) and de Soto (1987).

sure. Major outbreaks of violent protest have been few, considering the provocations. The fears current among the better-off urban strata, which see the poor as a menace of barbarism and chaos, have not been realized, although sharp rises in criminal behaviour, particularly among the youth, keep such fears alive. However, tangible reasons and means for the poor to support and participate in pluralist democracy at the national level cannot be delayed indefinitely.

### 5. *Peasants and rural workers*

The rural population has for some time been complexly linked to the urban one through the currents of migration, the penetration of mass communication media, and increasing dependence on national markets. These links have naturally undergone traumatic changes during the 1980s. Some groups of small landowners have gained through better terms of trade for domestic food products and more State support for peasant agriculture, but landless rural workers have generally lost, through higher food prices and greater competition for jobs. Cityward migration as an escape from rural poverty has become less attractive, although not enough to stop it. Remittances from migrants that previously subsidized many rural economies have probably dwindled, and reverse migration from the cities to the countryside has probably increased.

Rural social organizations have in a good many cases revived or become better able to take advantage of democratic openings, to enter into political alliances, and to negotiate with the State. Peasants and rural workers are now dealing with export-oriented agricultural entrepreneurs and commercial intermediaries quite different from the traditional landlords, although not in general less exploitative or readier to concede bargaining rights. The old unresolved issues of land monopolization and tenure reform reappear in new settings, as landless peasants move into the tropical interior and contend with large exploitative enterprises as well as with the previous inhabitants. Even forest-dwelling tribes, until now the most defenceless of the rural groups, have become able to find external allies and make their

grievances heard internationally as well as nationally. To a large extent (albeit with obvious differences within and between countries) rural isolation and unchallenged domination by landowners and caciques has been superseded. On balance, however, the 1980s have brought rural people in much of Latin America even greater insecurity and exposure to violence than heretofore. Attempts at organized and autonomous political participation still encounter intimidation by private as well as public armed forces, or degenerate into endless conflicts in which rural people become pawns of contending forces —guerrillas, drug traffickers, police and military— disrupting livelihood and community ties and practically depopulating some zones. Coca cultivation, through which peasants in some countries have raised both their incomes and their organizational solidarity, has notoriously become a major factor in the spread of intimidating violence.

Throughout Latin America, the rural population, while generally maintaining its absolute numbers, has become a minority in relation to the urban population. The prospects of incorporating rural groups —culturally or ethnically distinct and accustomed but not reconciled to exclusion from "national" affairs— into a pluralist democratic order is thus less formidable than it seemed in the past. The threat or promise of social transformation through peasant revolution has practically disappeared except in a very few countries. The rural population has become more integrated into the national societies, although this integration is on very disadvantageous terms and is far from complete. Rural changes may continue to be more violently conflictive than urban ones, but the main immediate requisite for full rural participation in pluralist democracy is an effective and supportive State presence, offering means for conflict resolution other than the law of the strongest, as well as basic education and health services and help in coping with technological change and market relationships. This, of course, is what democratic governments have been aspiring to provide, and the general reduction of State resources and administrative capacities has probably affected their rural presence even more adversely than their other functions.

### 6. *Social structural fluidity and democratic politics*

The groups or classes described above are now groping for political expression through parties and movements that are themselves experiencing identity crises, in many cases emerging from years of repression, insecure as to the forces they can expect to represent and the relevance of their traditional ideologies. Leadership from the 1950s and 1960s has to interact with young activists whose generation has experienced a simultaneous disintegration of expectations for insertion into employment and the continually changing impact of the international youth culture. The political parties have to incorporate or compete with new kinds of organized move-

ments seeking to achieve priority for protection of the environment, the rights of women, or the legitimacy of minority cultures. In the effort to put together majority coalitions the parties are forming combinations that would have been unthinkable in the recent past, but the resulting majorities are inevitably precarious. The competitive introduction of sophisticated marketing techniques makes electoral choices more confusing or illusory. The conjuncture is no doubt stimulating greater realism and innovativeness in parts of the political leadership. However to the extent to which the crisis forces this leadership, once in office, to apply policies repugnant to its values and promises, it generates extremely unstable electoral behaviour, with votes expressing mainly repudiation rather than preference.

## III

### The State and democracy

How can the proponents of pluralist democracy, grappling with the fluidity of the social structures and of political organizations in settings of crisis, justify popular confidence in its future? Part of the answer must lie in a strengthening of the State, a renewal of responsibility for tasks that only the State can accomplish, and this very general proposition opens up one of the more polemical areas of political discourse. A discussion of the responsibilities of the State in relation to the questions discussed above must try to keep in balance three different dimensions of the "State":

#### 1. *The State as symbol of nationhood*

As the permanent expression of a national political community, the State demands the loyalty of members of the community, acts as final arbiter of class and group conflicts, monopolizes the legitimate use of force, etc., according to well-known formulas. Ideally, in pluralist democracies majorities would decide what the State should do or refrain from doing, within generally accepted and codified rules protecting the rights of minorities. In Latin America the State

has historically asserted wide autonomy in relation to society, extending even to State manipulation or creation of collective social actors, but it has been paradoxically weak in representativeness and accepted hegemony. Attempts to mobilize the "nation" behind the State have contributed to populism and the aggrandizement of the military as symbol of the nation and guarantor of the State. In Latin America, the State has gained strength in recent decades through the weakening or elimination of local power centres and oligarchies and, more ambivalently, through widening expectations in most of the population that solutions to problems of livelihood and protection against injustice depend on the State.<sup>3</sup> The processes of democratization have strengthened State legitimacy and the failures of populism and military authoritarianism have generated some degree of immunization against temptations to advance minority interests through capture and voluntarist manipulation of the State.

<sup>3</sup>Cardoso (1984), p. 28 *et seq.*, discusses the strength of these expectations and the contradictions in them.

At the same time, the State as the expression of nationhood is threatened from two directions. Internally, social structural mutations during and before the crisis, with shocks to previous expectations and the emergence of new opportunities for advancement divorced from or contrary to the legal framework and the general welfare, have made relations between the State and society more contradictory and precarious.

Externally, the State has become more visibly dependent not only on the vicissitudes of the world economic order but also on the direct dictates of the international lending agencies. As was indicated above, parts of the élites have become more "transnationalized" both ideologically and in their material interests, prepared to transfer their funds and their expertise if national prospects are unpropitious or government policies affect them adversely. Even movements focussed on social, cultural, human rights and ecological questions have become dependent on transnational circuits. These circuits have also become critically important—as sources of funds, forums for interchange of ideas, and refuges from repression—to participants in political research as well as political action.

Altogether, confidence in the nation-State is eroding under the suspicion that such States, whatever their leadership or policies, are becoming irrelevant or impotent. In its impact on the credibility of the State the crisis has meant more than a loss of 10 years of "development" or reversion to the level of the early 1970s. While the better-established nation-States of Europe have been able to respond to new challenges by closer union the States of Latin America have seemed unable to do so, beyond the level of rhetoric and conferences. One reason has been the uneasy coexistence of formally democratic States side by side with those controlled by authoritarian régimes, with the former implicitly questioning the legitimacy of the latter, and the latter affirming their legitimacy by resorting to traditional national rivalries. The present predominance of pluralist democratic régimes should make closer union possible as well as necessary, but obviously a great deal needs to be done before this can shore up the credibility of the State as an effective expression of political community.

## 2. *The State as "public sector"*

States constitute aggregations of institutions and bureaucracies with their own forces of inertia and momentum. Up to the 1980s, public sector institutions in most countries, in spite of political purges and other vicissitudes, were gradually becoming "modernized", entrusted with wider responsibilities, and staffed by better-qualified functionaries. The enhanced capacity of the public sector to manage the economy and provide social services was commonly pointed to as one of the more positive aspects of "development", a means of making this disorderly process more dynamic and more harmonious in the future. It became evident, however, that even under authoritarian régimes parts of the State apparatus were becoming increasingly detached from central control. They evolved their own techniques for self-defence and expansion, and became more closely linked to interest groups in the private sector or to external interlocutors (governments, intergovernmental organizations, transnational enterprises, professional peer groups) than to the State as arbiter of national policy (Martins, 1984 and Graciarena, 1984). The educational upgrading of public employment became entangled with its inflation in order to absorb the output of the universities. In the fragmented autonomization of the State apparatus the military became even more of a special case than before, with their own political culture and conception of the State and their unrivalled capacity to impose their own criteria on the State and society.

With the crisis of the 1980s and the shrinkage of public resources, governments, whatever their policy stance, cannot afford the bureaucracies they have acquired piecemeal. Thus they cannot avoid striving to make the State apparatus less costly, more flexible, more responsive to central directives as well as to democratic principles, and more concentrated on major immediate needs rather than spread over a multiplicity of programmes originating in separate past initiatives. Simplification of regulations and controls in order to stimulate private initiative and reduce the costs of the "nursemaid State" is obviously desirable but hard to achieve in the midst of crisis and conflicting demands.



Democratic régimes cannot afford to reduce public employment drastically in the face of the plight of the middle strata, but neither can they afford to maintain salaries and resources so that the public services can meet their responsibilities. The result, as was stated above, has been demoralization and "survival strategies" among public functionaries that further discredit State authority.

### 3. *State and régime*

Lastly, one comes to the government or political régime as the expression of dominant forces in the society or of a compromise between different forces, expected to convert into reality the ideal attributes of the State and harness the public sector institutions and bureaucracies for this purpose. Many studies in Latin America and elsewhere have demonstrated how governments are hampered in these tasks by the traits of the State apparatus, the nature of political support or resistances from within the societies, and their own ideologically biased versions of reality. "Expert" advice on what must be done, and how it should be carried out, invariably exceeds the political leadership's ability to digest, select, and act on it. Democratic leadership, in particular, must continually try to balance contradictory principles for action; to feel and inspire confidence in the correctness of its policies while remaining open to criticism; to seek policy consistency while being prepared to compromise so as to broaden political support; and to undertake urgently needed and controversial actions while respecting rules of the game that enable adversaries to block or distort such actions. If the political leadership accepts the full implications of pluralist democracy it must also accept permanent uncertainty as to the outcome of its policies and their endorsement by the society.<sup>4</sup> At present, the contradiction between political

conformism or realism in the sense of recognition of narrow constraints on State action, on the one hand, and apprehension that major changes in economic policy and the role of the State cannot be evaded, on the other, is particularly acute. A number of object-lessons throughout the world have demonstrated the depths of economic chaos and political ungovernability to which countries can fall either through evasion of choices or through voluntarist strategies that disregard limited control of relevant factors.

A few principles for State action within a pluralist democratic framework can be proposed.<sup>5</sup> Their applicability obviously depends on confrontation with national peculiarities, potentialities and constraints. All of them imply political costs as well as benefits and contain possibilities for perverse results:

#### a) *Restraint and choice in State interventions*

Strengthening of the State requires self-limitation and simplification of its interventions. The struggle to accomplish this may in itself strengthen the State by forcing the political leadership to assess the justifications and organized interests behind the whole range of State activities. Under present conditions, if democratic régimes do not undertake this effort, they face further loss of control over semi-autonomous public institutions and further deterioration in the quality of services to the public. The elimination of overlapping or contradictory regulating and permit-issuing functions of public agencies (one of the main irritants in relations between the State and the public) would by itself strengthen the legitimacy of the State in enforcing regulations really needed to protect public health and safety. Moreover, restraint in State interventions is in keeping with promising initiatives for innovative co-operation emerging within the societies.

<sup>4</sup>"Democracy means that all groups must subject their interests to uncertainty. It is this very act of alienation of control over outcomes of conflicts that constitutes the decisive step toward democracy. If one set of policies is seen as superior for the welfare of the society and this set of policies is assumed to be known, then it seems irrational to introduce uncertainty as to whether this set of policies will be chosen. Even in an economic crisis, when the economic policy of a particular government is recognized to have

been mistaken, some other policy always appears to authoritarian bureaucrats as uniquely destined to improve the situation. Recognition of past mistakes does not constitute a demonstration that the authoritarian system is inherently flawed but only that past mistakes must be corrected and a new, proper policy must be followed." (Przeworski (1986), pp. 60-61.)

<sup>5</sup>Principles and pitfalls for democratic régimes are discussed in more detail in Wolfe (1985).

At the same time, this desideratum confronts contradictions with democratically expressed demands and convictions concerning social rights, as well as less legitimate clientelist, corporative and bureaucratic tactics that are entangled with them in democratic or other political processes. Political parties will naturally compete with each other and must be able to offer something to the electorate, beyond the mere promise that correct economic strategy will eventually benefit everybody. Different sectors of the population have concrete expectations from the State as protector and arbiter, based on its past activities. Doctrinaire dismissal of these expectations can result in damaging pendular swings between the extremes of the interventionist State and the privatizing neoliberal State. The activities easiest for a government to relinquish are those directed to the needs of the least organized and poorest sectors of the population. The pursuit of self-limitation of the State thus calls for public deliberation on the specific issues and the presentation of realistic, socially equitable alternatives for performing tasks that the State relinquishes. While pluralist democracy can be compatible with many degrees and kinds of State intervention, decisions on what the State should do cannot rest entirely on criteria of efficiency —or, for that matter, of equity. It is probably futile to urge a complexly stratified society to "make up its mind" as to what it wants.

#### b) *Decentralization*

Transfer of many State responsibilities to regional and local elected authorities as well as non-governmental organizations and neighbourhood associations is not only desirable but also unavoidable in view of dwindling central resources and rising demands for regional and local autonomy. Here too, however, contradictions appear. Governments naturally want to hand over responsibilities and costs while keeping control over what is done locally. The desideratum of sufficient autonomy to permit local bodies to gain experience and self-confidence through trial and error clashes with the desideratum of national standards for services, State guarantees of rights, and safeguards against the capture of local bodies by self-serving cliques and caciques. The local bodies will continue to want

and need subsidies from the State, while the State will be reluctant to transfer control even over local sources of tax revenue. Contradictions such as these persist even in the countries with the firmest traditions of pluralist democracy and the best institutionalized systems of public administration, with continually shifting balances between centralization and local autonomy, subsidies and forced self-reliance, centrally enforced standards and local resistance to such standards. In maintaining a tolerable balance and keeping inequities and inefficiencies within limits, the courts, the national legislatures, and the mass media are key actors whose interventions make national/local relationships even more complex.

#### c) *Democratic rehabilitation of the bureaucracy*

The capacity to undertake, reform or abandon given policies depends, among other things, on better understanding of class and group interests, organizations, ideologies and self-defensive tactics of the State's technocratic and bureaucratic agents. At present, as was stated above, the agents in technocratic and planning roles face unprecedented responsibilities yet are deprived of their previous confidence in development theories and have to interact with political leaderships uncertain whether to treat them as saviours or scapegoats. The middle and lower strata of public employees have become insecure to the point of demoralization. Researches into bureaucratic culture warn against excessive expectations of making bureaucracies into optimal instruments of State policies, but governments cannot afford to relinquish the pre-crisis advances toward bureaucracies with internalized norms, experience and technical competence.

The present problem has two main aspects, neither of them susceptible to simple short-term solutions: First, the public employees needed by the State will have to recover confidence in their own roles and at the same time adapt themselves to scarcity of resources and to the conflictive democratization of the societies. Second, and even harder to prescribe for, a high proportion of middle-level public employees and aspirants to public employment will have to find different means of livelihood. Various partial solutions can be proposed, such as aid in the establishment

of small businesses and retraining for social programmes to be implemented by the national or local governments, but democratic régimes will be wrestling with the bulk of the problem as long as the economies remain unable to absorb the output of the educational systems. Public employees are legitimate participants in pluralist democracy, with even more acute problems of reconciling corporate interests and societal interests than most other groups. Democratic political leadership can hope to bring their roles into somewhat closer correspondence with the interests of society as a whole through dialogue with their representatives and through mutual awareness that the *status quo* is not viable.

#### d) *Financing of the State*

During the earlier stages of expansion of the State apparatus and State activities, the necessary financing was achieved partly through growth of the export sector and of taxes on exports, and partly through internal taxes that were relatively easy to collect but generally regressive, such as sales taxes. As these sources became insufficient and the State's ability to collect taxes deteriorated rather than improved, governments resorted increasingly to inflationary practices and then to borrowing abroad. Under conditions of depressed internal markets previous sources of revenue cannot be increased very much: inflation has become one of the main sources of popular unrest and government discredit, and substantial borrowing abroad is no longer feasible. Therefore, democratic régimes must try to achieve whatever level of income they require by establishing tax systems that bring in more money, are socially equitable, and do not unduly inhibit private initiative. For reasons already indicated, this will be a peculiarly difficult effort, requiring not only reform of the tax laws and an efficient, incorruptible enforcement mechanism, but also achievement of a reasonable degree of confidence among the taxpayers that the State will make good use of the revenues it receives.

#### e) *Foresight and flexibility*

In spite of the many efforts to formulate long-term and comprehensive development strategies, State actions in Latin America, as

elsewhere, have remained largely fragmentary and reactive —to short-term opportunities as well as to crises. The indiscriminate welcoming of loan funds from abroad during the 1970s and the crisis management policies of the 1980s are obvious examples. It is not surprising that the participation in policy-making of different sectors of the population has been similarly reactive, to the consequences of State policies or to trends outside the control of the State. With widely differing ability to make their demands heard, each group has resorted to the tactics within its reach. Many of these tactics further weaken the State's capacity to act coherently: curtailment of investments and export of capital from one extreme of the social spectrum; general strikes, spontaneous uprisings against impoverishment, and extreme swings in voting patterns from the other.

Democratic régimes must be prepared, particularly in times of crisis, to live with a good deal of reactive behaviour and respond as best they can to demands that cannot be satisfied in the short term. Ideally, of course, the State, the political parties, the critical intellectuals, and the heterogeneous social movements could all benefit and reinforce each other in exercising more foresight, preventing or providing for problems rather than embarking much later on costly and generally ineffective remedies, or demanding remedies that a long chain of actions and failures to act has made the State unable to provide. This obviously applies to the questions of environmental degradation, destructive land settlement, chaotic urbanization, lagging scientific and technological innovation, and many others, as well as the problems of indebtedness, forced austerity and impoverishment now in the forefront of attention.

Warnings on the future consequences of highly visible trends have not been lacking since the 1950s. Such warnings could not prevail, however, in the face of dynamic economic growth, struggles to take advantage of that growth, and ideological schemes that postponed solution of all other problems until after definitive achievement of development or revolution. Over the years, understanding of the problems and their interrelationships has certainly become more profound and more widely disseminated, but this is small comfort.

Experience has demonstrated that comprehensive development strategies, once they enter the political arena, are applied only in part—because of differential resistance from groups in the private sector and the State apparatus, because resources and administrative capacity are insufficient to do many things at the same time in a co-ordinated way; because political leaders find parts of a strategy more attractive and likely to mobilize support than others, because proponents of some programmes are more aggressive and persuasive than others, etc. This happened to the structuralist strategies of the 1950s and 1960s and also to the later neoliberal strategies. It is not a sufficient justification for the proponents of a given strategy to argue that it would have had better results if it had been more consistently applied. Can régimes and their interlocutors in the societies find better means of exercising foresight without excluding "politics" and the uncertainty principle?

#### f) *Planning*

This brings us to the question of planning. The prescriptions for comprehensive, rationalistic and reformist development planning, which left an abundant heritage of national planning bodies and training institutions, clearly did not generate sufficient foresight, consensus or State capacity to influence the future. They have undergone harsh evaluations from some of their practitioners as a "liturgy . . . with resonance both messianic and utopian". "The voluntarist illusions of planning in the service of social change . . . today lack all viability". Planners have been advised to fix their sights on "harmonizing as far as possible the interests and the demands of the social forces in conflict, in an effort to reduce uncertainty in their future evolution", recognizing that "the success (and the viability) of current political projects will depend essentially on the degree of hegemony of the dominant groups over the society as a whole, on the level of compatibility of the respective political project with the rationality dominant in these systems, and with the basic trends dominant in the world economy of which they form part" (de Mattos, 1988).

This position limits planning to diagnostic and educational functions at the service of the

State, with modest pretensions to rationalize conflicts, evaluate the efforts of social actors to bring questions to the attention of governments, and propose relevant reforms. This is certainly more realistic than the conception of planning as a means of transforming State policy through the application of esoteric tools while evading the question of power, but it does not confront the sorry consequences of the dominant rationality and the doubtful compatibility with national interests of the trends dominant in the world economy. The major value of present planning bodies to democratic régimes might lie in their installed capacity for research, criticism of conventional wisdom, and generation of heterodox proposals for coping with dominant trends. In any case, conformist planning at the service of the State should interact with counter-planning by intellectuals outside the State apparatus—uncommitted to the prevailing hegemony and uninhibited in trying to act as agents of social change—as well as planning at the service of the political parties and other movements. Education in planning, for all its illusions, has helped to produce a body of candidates qualified for these roles.

In this sense, planning merges into the debates and researches over political systems and styles of development (or alternatives to "development") that have been under way since the 1960s and that are now reviving cautiously after a period of eclipse. The earlier proposals refused to accept the inevitability of the reproduction in Latin America of the "consumer society" of the advanced capitalist countries, on the one hand, or the "real Socialist" model on the other. They expressed a confidence in the potentialities of autonomous choice at the national level and "de-linking" from the world economic order that later events have dissipated. They undoubtedly combined a "liturgy" of technocratic utopianism with participatory and equalitarian ideals. Many factors have since made it harder to think about choices for the long-term future. However, if pluralist democracies are to be altogether subject to the economic Kingdom of Necessity, why should people participate and defend them? Four questions, in particular, argue against agnosticism toward the long-term future. In relation to all four questions, governments and social movements are undertaking

necessary initiatives in spite of the crisis, but are quite aware of the wide gap between these piecemeal initiatives and convincing answers:

— *The environmental question:* Are present trends of resource use and industrialization really viable and compatible with human survival over the long term? If not, how can they be transformed and what agents can undertake to direct the transformation?

— *The equity question:* If the patterns of distribution —the juxtaposition of extreme wealth and extreme poverty— are ethically intolerable as well as inhibiting to development, as governments and peoples have affirmed for years, what can be done to change them, how far, and by whom? Why does distribution in Latin America continue to be more inequitable than in other world regions in spite of the rhetoric and the proliferation of programmes?

— *The meaningful activity question:* If even the most optimistic production and employment projections do not offer hope of incorporating a large part of the continually growing labour force, and if modernization processes and considerations of economic efficiency set limits to employment expansion, how can the "superfluous" part of the population find livelihood and bases for a sense of belonging to and participating in the social order? Can a conception of "meaningful activity for all" replace "full employment" as a long-term objective?

— *The cultural question:* Should the societies of Latin America accept as inevitable the cultural homogenization diffused from the central consumer societies? If not, how can they affirm their own cultural identity and enrich their internal cultural diversity while respecting the free choices of their people and the necessary active participation in world cultural and technological advances?

Debates on such questions are inherently conflictive. They may generate greater realism and mutual understanding, but never full consensus. Their terms are bound to change as the

settings change, eliminating some possibilities and opening others. For the present, what can be hoped for is that the debates will continue and draw in the general public, with innovativeness and time horizons beyond the limits imposed by crisis management.

The ideal of "participatory planning", involving the State in dialogue with the whole range of collective social actors and leading to social pacts enjoying broad consensus, deserves support tempered by realism. The extent to which the contending forces can really derive coherent projects from such initiatives, and the extent to which the interlocutors can commit their supposed followings remain questionable, particularly as long as the discussion has to centre on the sharing of sacrifices without any assurances that the sacrifices will really be rewarded. These initiatives, like the earlier conceptions of planning, risk becoming ritualistic means of postponing difficult choices and responses to group pressures, with concrete proposals for State action emerging only after they have ceased to be politically or economically viable. Nevertheless, the efforts cannot be abandoned. They have an important educational function, as long as they direct their sights beyond the short term, even if the social pacts rarely maintain themselves for very long.

Participatory planning and social pacts suppose the formation and effective functioning of consultative bodies supplementing representation through political parties and legislatures. Such mechanisms should help to reveal the full implications of given policies and the strengths of the backing and resistance they will encounter. They should help to bring out into the open pressures and tactics for influencing policy that would be present in any case. The obvious drawbacks lie in the unequal capacity of different groups to formulate and represent common interests, and in the likelihood of new manifestations of policy segmentation, as different organized interests consult with different components of the State apparatus to shape the policies that affect them most directly.

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## The growing presence of women in development

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One of the most far-reaching social changes in the Latin American and Caribbean region in the last 30 years has been the ever-increasing presence of women in public life, particularly in education and the work force. This presence has also been significant in social movements and grass-roots organizations.

The social acceptance of women in public life has had as yet undetermined consequences in their private lives; housework turns into a double shift for the working woman, and child-care raises a crucial issue which society has yet to resolve. However, this acceptance is not based on social policies that take into account those functions typical of the private world; often both worlds, the private and the public, come into conflict. Couples face changes in their relationships based on women's increasing economic independence and autonomy.

The existence within the region of a large sector of women employed in domestic service waters down a good part of these phenomena. On the other hand, the socioeconomic situation of women is highly heterogeneous; for sizeable female contingents, access to birth-control, education and modernity in general is currently impossible.

Nevertheless, change has begun to permeate Latin American societies and to raise new questions. Cultural models, interpersonal relationships, the socialization of new generations, all present new challenges and generate contradictions. There is as yet no clear picture of the world of the future. Perhaps a possibility might consist of the coexistence of different social life projects.

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## Introduction

Interest in the integration of women into development is part of an awareness process which the modern world has taken on with greater emphasis since the post-war period. In recent decades this process has widened and deepened to include economic, technological, social and cultural change.

The impetus given by the United Nations to the advancement of women resulted in a great dissemination of studies, research and activities which opened up new perspectives, points of view, approaches and objectives on practically all contemporary issues.

In the Latin American and Caribbean region the situation of women has been the object of evaluations by ECLAC since the early 1970s. Following studies on female participation in the development of the region and measures necessary to eliminate all discrimination, certain factors for analysing and evaluating the issue, pertaining to family, education, employment, legislation, health, social communications and political participation, subsequently became prominent. In 1977 examination of the progress recorded by women was incorporated into ECLAC's regular evaluation activities and, starting from the Regional Action Plan, periodic evaluation exercises have been undertaken at regional and world conferences.

The subject, in turn, gained relevance within the entire United Nations system, exerting a permanent influence on regional and international priorities. Likewise, academic centres, non-governmental organizations and women's groups proliferated in the region and there was a broadening of subjects.

Women's role in society has been modified in this century, and has received ever-increasing recognition. Industrialization processes transformed every-day living by socializing many functions carried out in the home and created new opportunities for work and social participation by women in the public domain. It is possible that the Second World War accelerated this incorporation process of women in Europe, by forcing them to assume on a massive scale those functions which had been

hitherto reserved for men. In any event, the model of the working woman became widespread. In Latin America and the Caribbean the urbanization process exercised a strong influence: women took on new tasks, advanced in domains where they had greater interaction with men, became more visible publicly and aware of their own potential and the importance of their functions.

The United Nations examined this situation and gave the subject of women's condition permanent stature; from the outset this action was essentially oriented to the pressing need to guarantee equality and bar discrimination.

The following pages review the impact of major changes in the situation of women in the region over the last three decades, both in the

public and private domains. The process has been multifaceted and heterogeneous, with major advances in the legal aspects, formal education and recognition of the validity of the subject. It is emphasized that women's policies have to be reinforced in order to ensure that the crisis does not turn back the progress achieved. An attempt is made to show that many apparently ambivalent aspects of women's social participation are an indication of transformation. The concrete needs of women must be satisfied unequally in order to promote true equality among women of the popular urban sector, those of the rural sector, young women, female heads of households, etc. Hence political will will be indispensable in promoting initiatives for the advancement of women.

## I

### Women in Latin America and the Caribbean: elements for a diagnosis

#### 1. *Demographic aspects*

Changes in recent decades have affected all sectors of the population, but it is probable that women and youth reflect them the most. In the case of women, the importance of these changes transcends the economic and social sphere and produces transformations which begin to modify cultural behaviour. Although, given the magnitude and diversity of these changes, it is impossible to indicate their development or to measure their impact precisely, mention should at least be made of some significant phenomena. Advances in medicine, and in particular the spread of antibiotics, apparently had an influence on perceptions on childbirth. Risks associated with maternity markedly decreased, with a lengthening of women's life expectancy. While life expectancy of the regional population increased from 55 years in the 1950s to over 70 in the 1980s the increase was more significant among women.

Subsequently, advances in birth control methods, supported at times by demographic policies and widespread use of contraceptives,

caused a marked drop in fertility. This decline has social consequences over and above being a purely quantitative phenomenon. That sexuality can be separated from reproduction and that the latter can possess quite a high safety margin is a new phenomenon. Although this decrease is particularly visible in middle echelons with high levels of education, it is more frequent in countries with greater modernization, and the situation begins to be generalized in all strata of all countries. These demographic changes in Latin America and the Caribbean are even more spectacular if one remembers that they occur in a domain in which different religious practices prevail and where certain traditional socialization models still remain strong.

One impact of urbanization on the situation of women is reflected in a fundamental change in family, i.e., the trend towards smaller households. In general, it can be pointed out that a lesser number of children favours entry into the working world, but, at the same time, and in the absence of other adults, this factor imposes greater responsibility on the couple *vis-a-vis* their children than in an extended family household.



Likewise an increase in female heads of households is observed, particularly in the last decade. According to partial figures for 1982 this varies from 18% to 23% (Lima and Panama City), which is quite significant. These figures vary for the Caribbean between 24% and 46%.

Urbanization, and in particular, life in the big cities, allows for greater anonymity; therefore, there is less social control over women's private lives. Not all social spheres open up, but those in existence appear less narrow than in the past and with new contradictions.

Besides, during the urbanization process, sizeable contingents of young women migrated to cities to take jobs, for the most part, in domestic service. Numerous studies have focused on this topic in recent years.

In Latin America, the overall fertility rate shows great heterogeneity, as indicated by figures from the CELADE *Demographic Bulletin* No. 41, January 1988, for the five year periods 1950-1955 and 1985-1990. Thus, it is possible to distinguish five groups of countries. In first place are those with low fertility in both periods, such as Argentina (3.1% and 3.1%) and Uruguay (2.7% and 2.8%). These are followed by countries with medium-low fertility rates in the first period and low in the second (Cuba, 4% and 2%) or medium-high and low respectively (Chile, 5.1% and 2.8%). On the other hand, there are still countries with high fertility rates in the first five-year period and medium-low in the current one; this is the most numerous group and includes Brazil (6.1% and 3.8%), Colombia (6.7% and 3.9%), Costa Rica (6.7% and 3.5%), the Dominican Republic (7.4% and 4.2%), Mexico (6.7% and 4.2%), Panama (5.7% and 3.5%), and Venezuela (6.5% and 4.1%). The fourth group of countries involves those with high fertility in the first period and medium-high in the current period and includes Ecuador (6.9% and 5%), El Salvador (6.5% and 5.2%), Haiti (6.1% and 5.1%), Paraguay (6.8% and 4.8%) and Peru (6.8% and 5%). Lastly, the fifth group includes countries with high fertility in both five-year periods and are Bolivia (6.7% and 6.2%), Guatemala (7.1% and 6.1%), Nicaragua (7.3% and 6%) and Honduras (7% and 6.2%), which still have not completely stabilized their indicator trend, and experience relatively lower declines in overall fertility rates.

## 2. *Participation in the work force*

Although characteristics vary according to specific situations that differ between developed and developing countries, it is a fact that women's incorporation into the work force has reached magnitudes that were inconceivable 30 years ago: working women in the world today total 815 million; in the decade 1975-1985, 15 million women were incorporated annually into the labour market. The female work force in Latin America tripled between 1950 and 1980, increasing from 10 to 32 million.

The characteristics of female economic participation in the region reflect the diversity of their social and economic insertion and the degree of modernization of the countries, but some main trends may be pointed out. In particular, the high speed of incorporation observed during this period is one of the most evident. In effect, growth rates of the female work force increased more than those of males, although they continued to be low; as a result, overall participation grew by almost 18% in 1950 to slightly over 26% in 1980. If one takes into account the various countries of the region, rates vary, for example, from 6.2% in 1950 to 7.0% in 1980 in the Dominican Republic and from 19% in 1950 to 22.8% in 1980 in Uruguay. Perhaps one of the variations causing the most impact is that of Mexico whose refined rate for female participation varies from 8.3% in 1950 to 17.3% in 1980, or else that of Cuba, where variation rises from 9.2% in 1950 to 22.3% in 1980. Women's incorporation into the work force is strongly influenced by what stage they are at in the life cycle. In general, participation by singles is greatest; however, at post-secondary education levels the effect of marital status is nullified, and participation is high, independent of marital status. The age-group with the greatest participation is that of ages 25 to 29; in this bracket the lowest participation in 1950 was 11.5% shown by the Dominican Republic, and the highest was 36.9% recorded in Uruguay. In 1980, although in the Dominican Republic the rate of this age group was 14.0%, in the majority of countries it was over 20%, reaching 49.2% in Cuba.

Extensions in education coverage, increased social security, the family and reproductive cycles all tend to be mentioned as factors having an

effect on the working age of most women between ages 20 and 29. In terms of the permanence of women in the labour force, although economic factors are paramount among popular sectors, higher education and higher degrees of modernization of the country also exert an influence among medium sectors.

Within this economic participation, the service sector maintains its predominance, with the tertiarization process thus becoming strengthened. Figures for various countries show that towards 1980, between 38% and 55% of all working women were concentrated in this sector. Although their content varies, personal services continue to be important, while at the same time social services increase. In the majority of countries, female office workers are the second group in numerical importance and they continue to grow.

Household surveys available from 1970 onward show that for this period women's incomes have continued to be lower than those of men, and that occupational segregation continues. According to the same source, this occurs despite the fact that the average educational level of working women is higher than that of men.

In the Caribbean countries, and particularly in English-speaking ones, there has generally been no major social and cultural prejudice against women actively participating in economic activities. However, these women tend to be concentrated within a narrow range of economic activities, such as the clothing or service industry, or in professions providing assistance to others, such as nursing, where wage levels are lower than those of other sectors, in which men, such as technicians and construction workers, predominate. This fact has more to do with attitudes, images and conditioning — as manifestations of existing social relations with respect to the genre — than with legal or institutional barriers imposed on women. Upon examining rates of female participation in the work force in some of these countries, it is seen that for the period 1980-1988, the proportion varies between 31% in Cuba and 46%-47% in Barbados, Jamaica and the United States Virgin Islands.

In general, incentive policies towards economic participation by women have not

existed in the region; increases in such participation are related more to urbanization, modernization, the education process and changes in perception *vis-a-vis* work. Likewise, statistical data should be viewed with caution, since their comparability is dubious. On the one hand, there is an under-recording of female work and, on the other hand, measurement of the insertion of sizeable contingents of women into the modern area of the economy has improved. It is important to highlight improvements in statistics as being one of the achievements in recent years that allow for greater precision in the measuring of female labour.

Lastly, recognition has begun for work carried out by housewives. In effect, in various countries, between 30% and 50% of women over 25 do unpaid housework. Although no consensus has as yet been reached as to the most appropriate way of dealing with this matter, there is deeper understanding on usage of time, economic value of work done and variations in intensity of domestic work, which result from the incorporation of new technologies and the changing role of women within the family.

### 3. Education

Mention should be made of the enormous expansion of formal education and the growing access to it by women. Based on the principles of universalization of primary schooling, equalization of its distribution and constant expansion, mass education came about, and there was a marked increase in the training of working population. Between 1950 and 1960, the number of students in primary and secondary levels of schooling doubled and again between 1960 and 1970. At tertiary levels, there was also an increase, although less spectacular, and in 15 years (1970-1985) the proportion of women in them rose from 35% to 45%.

However, there are major differences between countries and between rural and urban areas. Likewise, in some countries illiteracy rates reach 90% among elderly women, while in the age group between 15 and 19 they do not exceed 15% and are similar for both sexes. For example, in some countries of the region, this rate varies from 4.5% to 23.2% for women in the urban sector (Argentina, Bolivia) and from 15.1% in

Argentina to 68.5% in Bolivia for those in the rural sector. Illiteracy rates among the 15 year old female population, according to the UNESCO 1988 Yearbook, vary from 6.4% in Argentina, 3.8% in Cuba up to 66.5% in Haiti.

In Latin America and the Caribbean the greater or lesser expansion of educational system coverage depended in part on overall development strategies. Likewise, it reflected the different opportunities of various social groups to gain access to those systems and remain within them. Thus, there are situations in which coverage is still very limited, others in which it is broad but not comprehensive and, finally, those with practically universal access. In any case, even in the most egalitarian systems, there are inequalities deriving from social origin, from the "educational devaluation" which tends to accompany mass education, from the qualitative stratification of educational establishments that tends to coincide with social stratification, etc.

Despite this, educational expansion was very great, particularly among the female sector of the population. Greater equality of opportunities occurred at high levels, while greater discrimination continued among poor rural groups, and differences persisted between "very educated" and illiterate women. Besides, the content of female education, particularly higher education, continues to refer to capacities culturally recognized as being more appropriate for women, although it is evident that, increasingly, women are beginning to be educated to work and not only to fulfil a social function. Thus, there are marked differences in the proportion of women in teaching and in engineering careers. While in the former, women reach up to 88.0% (Argentina), in the latter the maximum is 26.4% (Colombia).

#### 4. Legislation

The objective of equality, which is one of the broadest of the decade, has already been interpreted during the United Nations Decade for Women, by the World Conference on Equality, Development and Peace, held in July, 1980, in Copenhagen, not only in the sense of legal equality —the elimination of *de jure* discrimination— but also equality of rights,

responsibilities and opportunities for women to participate in development as a beneficiary and as an active agent.

In terms of legislation, major achievements have been recorded in the region. First, over half of the countries have ratified the Convention on the Elimination of All Forms of Discrimination against Women, thus expressing their commitment on the matter. Likewise, the majority have adopted domestic legislative measures which favour this objective.

It could be said that by the 1980s there was no discrimination in Latin America and the Caribbean regarding political rights inherent in citizenship. In other legal areas, for example regarding married women, in various countries their capacity is still affected by marital authority, by the system of administration of property in marriage and by paternal authority over underage unemancipated children. Although there has been a positive evolution in this matter, there is still discrimination in some legislation. In penal law there is still unequal legal treatment in many countries, especially when dealing with adultery or parricide. Likewise, crimes related to infanticide, abortion and rape are penalized differently.

In labour laws, practically all national legislations have accepted the principle embodied in Convention 100 of the International Labour Organisation on equal pay between the sexes for equal work. Differentiated regulations for women refer to night work or work that is unhealthy and to the protection of maternity.

Since the causes of discrimination arise essentially from *de facto* situations, from the maintenance of socio-cultural stereotypes and from lack of awareness, in recent years, the majority of governments of the region have established specialized agencies for promoting the status of women and have adopted plans and policies intended to ensure equal opportunities. These national mechanisms are assigned to certain ministries in the category of under-secretaries' offices, general directors' offices, governmental divisions in the areas of family, social welfare, education, culture, labour, planning, economic development.

In terms of legislative reforms, various countries have developed projects geared to

modifying provisions that discriminate against women, particularly with regard to paternal authority over under-age unemancipated children and filiation, reforms of rules on the family, divorce, equal rights and duties in marriage, family rights, etc. Likewise, in some countries, programmes for the advancement of women deal with training, child care and attention, family participation and dissemination of women's rights and issues. It is interesting to note that new legislative demands have arisen out of women's movements and groups, regarding family violence and assistance to battered women. These incentives have already found certain acceptance in some countries.

A more precise evaluation requires research to provide adequate information on the ratification of international agreements and their incorporation into domestic law; levels of participation by women in international forums; provisions promulgated that guarantee equal rights for men and women and prohibit sex discrimination; the revoking of discriminatory standards as a result of co-ordinated action; the incorporation of unregulated provisions (e.g., family violence); and the establishment of legislative reform commissions. It would also be important to analyse those agencies concerned with the status of women (structure, functions, decision-making authority, territorial scope, insertion into government structure); mechanisms established to disseminate rights in force and, resources to render them effective; the treatment given to women's issues in national development plans; and efforts made to change socio-cultural stereotypes in education, work, communications, etc.

It would be interesting to study women's participation in decision-making, both within the domain of governments and non-governmental organizations and in political parties, as well as their incorporation into different levels of education and work.

### 5. *Participation*

One of the main objectives of the international community has been full participation by women in all spheres of social life. In effect, in

the early 1980s emphasis was placed on women's advancement as a basic element of the development process, and on the pressing need to undertake economic and social change to ensure their full participation.

Throughout the decade, the idea of women's participation in development emphasized their nature as active agents of the process, which was subsequently specified as a political, economic, social and cultural process.

Traditionally, when talking about social participation by women, reference is made to their participation in political parties, labour unions, etc., but always alluding to their presence within structured groups. As a result, their participation in leadership has been perceived as being extremely low, practically non-existent, and in the best of cases, as being minor within party committees and nuclei. However, traditionally, women have participated in other spheres of civil life, from upper class women's organizations in social charities and assistance projects, such as patronage or aid to hospitals, orphanages and asylums, to active participation by young women in sewing unions, for example.

Transformations in recent decades have also brought about regional changes in women's role in this domain. Modernization itself has caused an increase in the presence of women within social movements as well as women forming their own movements. However, it is still risky to venture conclusions. It is possible that new social movements organized by and for women reflect a crisis in traditional forms, but it is also possible that they uncover new foci of conflicts and contradictions. Women, particularly those in middle-income groups and, least so, those in upper-income groups, organized themselves in the first half of the century to obtain suffrage, education and work. Subsequently, they oriented their demands through female and feminist organizations, around such issues as human rights, relative recovery of their situation as women, or else in support of popular support organizations. Their centres have gathered qualitative information on the status of women undertaking activities of study, reflection and services for various social strata. Through the media they helped to disseminate information, knowledge and ideas on the subject of women.

Of the new social movements which emerged in recent decades in the popular neighbourhoods of major cities, an important part is constituted and led by women from the popular sector. Sometimes they form mothers' clubs, participate in church-run assistance programmes, lead recovery movements to obtain day-care or health facilities, form pressure groups to obtain housing or infrastructural services. Examples of these are the "Bartolina Sisa" Peasant Women Federation of Labour in Bolivia, the Mothers' Committee in El Salvador, etc.

These are heterogeneous organizations that are difficult to evaluate. They tend to come under the denomination of popular participation, and often they are considered to be part of survival strategies in this sector, complementing male ones. Normally, there is no room for them in political areas, and more radical groups sometimes consider them to be a new form of conservatism.

Participation by women in social movements and as a social movement seems to indicate a broader cultural transformation, tied to new forms of political activity.

In any case, this participation is generating new, more or less articulate demands, both for improved living conditions, as well as relating to protection *vis-à-vis* family violence, infrastructural support for the working woman and respect for women's image and identity.

Women's movements and organizations force a reinterpretation of political practice and a reassessment of their social dimension. More than any other subject, the emergence and demands of these groups sheds new light on the relations and interdependence of the family and society, of private and public life.

### 6. Family

Ever since systematic studies were begun on the status of women in Latin America and the Caribbean, the fundamental importance of the family —whether original or constituted— in social life has been repeatedly emphasized and analysed. Likewise, on various occasions persistent *de facto* and indirect discrimination has been highlighted, particularly that tied to marital status or to the family situation. In the

Nairobi Strategies oriented to the future advancement of women (resolution 40/108 of the United Nations General Assembly of 13 December 1985, emphasis is placed on the need to revoke discriminatory laws, especially against married women, and it is requested that complementary strategies be prepared to bring about the sharing of domestic responsibilities by all family members, as well as recognition for the invisible and unstructured economic contribution of women to society.

Although all United Nations instruments approved since the promulgation of the Charter have essentially promoted the broadening of women's social role, the latter's position in the family has been a permanent cause for concern and a backdrop projected with varying intensity on the debate (without achieving a final conclusion on the matter). Family-societal ties, private-public life, women's role in the home and in the social domain are still new topics which touch on all aspects and levels of current societies. In Latin America and the Caribbean, on the other hand, family units vary from one society to another, depending on which socioeconomic strata they belong to; they differ in strategies for living, socio-organizational models and in life cycles, all of which open up different possibilities for living and economic and social participation by women.

In recent decades, in addition to socioeconomic and cultural differences, families diversified, in particular, due to the urban modernization process.

The family in the region faced changes that were antagonistic and double in origin. Although theoretically it continued to be a nucleus that was highly resistant to change, in fact, it changed due to overall processes. The effects of this change were felt differently among different families, but there were very marked common trends. The first phenomenon of importance was the decrease in household size, which forced a redistribution of roles. Besides, the incorporation of large contingents of the rural population into the urban world caused structural breakdowns in many cultural and family systems, and in addition, incorporated numerous women into wage-earning labour. Although conservative and authoritative discourse has apparently continued on the

family, especially among the popular sectors, the undertaking of roles different to those formulated generates contradictions and increases conflict. Mass education and the impact of communications weakened the socializing role of the family and altered father-son relationships. The number of female-headed households grew due to the breakdown of couples, and support networks typical of extended and complex families weakened.

The traditional family model persists, especially among upper echelons and, in its specific form, among indigenous communities, but the prevailing trend is otherwise.

A large part of what was traditionally considered to be private space was socialized. Numerous functions tied to food preparation, domestic, educational, cultural and recreational tasks are today carried on outside the home. The family opened up to society and the majority of its members spend a large part of their time outside the home. The new articulation of family and society is as yet unclear, and rather, there is a disorganization and destabilization of the majority of family forms which had been most common in Latin America and the Caribbean. Together with this phenomenon, in some sectors, there is a growing re-evaluation of private space, and possibly this phenomenon will heighten. It is probable that in the next decades new family forms that are currently under gestation will be modelled. It is to be expected that measures proposed in the Nairobi Strategies will be expressed in them, in the sense of the relations between family and society becoming more flexible, and life in the bosom of the family becoming more shared.

### 7. *Vulnerable groups*

Among the most vulnerable groups of women are those in the popular urban sector, the rural poor, which for the most part includes women of minority ethnic groups and young women. Doubtless, other important groups could be added: housewives, maids, adolescent mothers, female heads of households, but it was thought that, although insufficient, the first three groups allow one to exemplify the main issues, options and needs of the most vulnerable female sectors,

as well as their possible contribution as agents of development.

To deal with the problems of a specific sector of women, whether because of their socioeconomic, geographic, ethnic or age situation, does not exclude consideration of them with regard to issues affecting other women; what is involved is a complementary perspective which permits one to examine women's issues from different angles and to propose adequate policies.

#### a) *Women of the popular urban sector*

The popular urban sector of the region is very heterogenous, but it has one common characteristic: it is essentially oriented to meeting basic needs and to developing group survival strategies. Here too women fulfil multiple functions, but despite their high participation in paid and unpaid labour, their position in the family tends to be markedly dependent. Besides, the excessive tasks they undertake partially or totally limit their social participation, which in itself was very difficult. They work primarily in the informal and service sectors, particularly in domestic work.

As some studies indicate, women in this sector are relatively young. There is higher frequency of female heads of households, accompanied by instability of marital unions. Educational levels of women in this sector have increased in recent decades, but marked differences persist in access to the educational system, which translate into exclusion or lesser relative incorporation and persistence of sizeable contingents of those who do not have access to secondary education.

Participation in work by women of this sector is higher than in other sectors, since it is governed by the logic of need. The range of occupations is limited and maids prevail, many of them rural migrants. Also, their participation in the informal sector is significant, where domestic work has a certain importance. A new mode of labour-intensive work is the assembly line, which covers industries such as clothing, textiles, electronics, etc. All these jobs are normally very low paid and lack social protection. Difficulties in becoming organized hamper the submission of work claims. In Latin America and the Caribbean, the urbanization

process has been relatively recent; for this reason, the urban popular sector tends to be new, composed largely of migrant women. Other occupations appear within this group, among which the female street-hawker is typical of the informal sector. These women normally come from the rural sector and often from indigeneous communities. Andean peasants sell self-produced wares, food and handicrafts. Some groups appear as a result of community breakdown, sometimes with their families. Another type of rural commerce, more typical of the Caribbean, is that done by intermediation and implies long absences by women.

The crisis has modified survival strategies of women and families of popular urban sectors. Women have intensified both their paid and domestic work. Simultaneously, other family members, generally minors, have had to become incorporated into the search for income necessary for the family's subsistence, which is also manifested in a visible increase in child begging and prostitution.

In groups belonging to the popular urban sector, the perception of women's social role is traditional, despite their important economic role. However, they participate actively, especially housewives, in organizations that seek to improve their living conditions. Only occasionally does this participation transcend the sphere of the *barrio* and community, but already a fundamental role begins to be recognized in terms of human settlements and popular organizations in general.

#### b) *Rural poor women*

The status of rural women continues to be very unfavourable, and it is probable that it has even worsened due to the modernization of family and social life, which ended in the crisis of traditional forms, without crystallizing into new models. We are not dealing with a homogenous group, since its members are inserted into agricultural economic sectors of advanced capitalist development, into peasant economies with populations of Hispanic and early mestizo origin, and in peasant economies of indigenous populations rooted in native communities.

Economic participation by peasant women tends to be mediated by the family, which is the

unit that in fact defines survival strategies. On the other hand, domestic work in this sector is broader than that of urban women, since it includes subsistence farming activities, preparation of foods, in addition to regular domestic work. Their productive work in agriculture depends to a large extent on cultural tradition, but more so on crop patterns. In cattle-ranching they tend to be present in dairying and cheese-making; in sheep-ranching in the care of domestic poultry. Their work in agricultural production is heavily influenced by family factors, type of farming, status of the head of household, etc. In the case of the Andean agricultural system, complementary participation by men, women and children in the entire productive process is noteworthy.

Another type of paid work carried out by women is tied to production for market, from care of sheep and production of handicrafts to sporadic work in services.

Ever since the modernization of agriculture the presence of rural women in wage labour became more visible. Although there is not much information on the subject, it is important to mention the female farm worker or labourer, who is normally unorganized, has high productivity and low wages and in many cases is also head of household. The other sector, that of export, based on the trading of flowers, fruits and fresh vegetables, currently absorbs large amounts of female labour. This sector poses similar problems to the previous one and although it appears to be considerable in magnitude, there is as yet no systematized information on this activity.

Lastly, an important characteristic of women in the rural sector, particularly notable from the 1940s onward, is their prevalence in the migration process. Those who tend to migrate are young single women, between the ages of 10 and 24, many of whom are the eldest daughters of rural families and of numerous families.

#### c) *Young women*

This group of young women (ages 15-24) accounts for between 30% and 40% of the population in various countries. Over one fifth of women between the ages of 15 and 24 have formed couples and only a slightly lower percentage between the ages of 15 and 19 are or

have been married. Very little is known about issues pertaining to them, despite the fact that Latin America and the Caribbean constitute a young continent: 75 million persons are between the ages of 15 and 24, of which approximately half are women.

As has already been mentioned, work participation by women, in particular between the ages of 20 and 29, is rising continuously with sustained growth over the last 30 years, as the overall rate of participation has decreased. Growth of the young female working sector has occurred particularly in the tertiary sector, from domestic service to the most modern occupation areas.

Unemployment is a subject of growing importance for the young female sector. The situation is critical in the majority of countries of the region. One may suppose that the problem is even greater than figures indicate, since many of the young women who claim to be in charge of the household are not but are concealed unemployed persons (by virtue of the ideological component of the so-called "domesticity", they conceal their situation).

In Caribbean countries, late abortions constitute a serious concern in the area of health, especially with regard to young women, whose numbers are increasing. It should be remembered that approximately half of the regional population is under 15, of which 50% are women. Despite greater educational opportunities, teenage pregnancy is very widespread, for various reasons, among which are ignorance about sexuality, peer pressure and high unemployment levels.

Changes in the education sector have had greater impact on young women as a group. Mass secondary education has probably been the most relevant characteristic of the expansion of education, in addition to the significant increase of women in higher education. On the other hand, the female sector shows great polarization in education levels. Due to the high cost of education, in the majority of countries there more often tends to be talk of exclusion rather than discrimination, since the sectors that do not have access to it are broad and of both sexes.

From the information available one can state that young women in Latin America and the Caribbean constitute a culturally heterogeneous group, socioeconomically unequal, which perhaps has their enormous vulnerability in common. The group also shares its orientation towards the private world and its low participation in the social scene.

If being young is taken to mean being part of a group that is in the process of biological and cultural formation and whose members do not as yet have all the responsibilities of an adult, it becomes clear that not all young women fit this category. Ethnicity, cultural formation, social class, socioeconomic conditions, the degree of modernization of the country, the deep-rootedness of traditional and religious cultural norms, the cultural definition of women's role in society and their access to education, all come into play in terms of their possibility of having youthful behaviour. In the majority of cases, maternity tends to be considered as the end of the youthful stage. According to some studies, the sharp increase in teenage pregnancies places them on an even greater level of vulnerability.

## II

### Balance

From the first years of the post-war period up to the 1980s the transformations of Latin American and Caribbean societies had a great influence on the situation, living conditions and social role of women in the region. These changes were difficult to measure in the majority of cases, and had visible effects on women's

social or public role. With major contradictions and differences between socioeconomic strata, degrees of modernization of the countries and depending on whether their origin was rural or urban, women's presence in economic activity increased, and they participated in the generalized feeling of growing social



mobilization. Many had fewer children, and their life expectancy was extended. Although a pattern prevailed in employment which was compatible with their traditional role, autonomy and economic independence increased, and they began to see themselves in a positive light as having value in and of themselves.

With the spread of the cinema, television and mass education, another way of socialization was propagated. In addition new socializing agents emerged, sometimes instead of the family, opening up new opportunities in terms of women's tasks. The gap between educated and uneducated women widened—thus creating two superimposed worlds—as did that between younger and older women.

Little is known about the private world and its changes. Some qualitative changes point to a transformation of family roles and a greater openness of the private towards the public, particularly in terms of the socialization of family members. Likewise, some topics went from the private domain to social debate, such as domestic work and violence within the family, for example. The increase in violence against women in Caribbean society constituted a visible concern of governments as well as non-governmental organizations. Featured among actions undertaken are studies, forums, radio and television programmes, the setting up of shelters to take in victims of battering, legal measures, etc. Apparently, awareness on these issues is unequal, depending on the country and social level. On the other hand, private space is reassessed as being an affective area also necessary for men, especially of the younger sector.

Although many aspects are not sufficiently clear to be considered as achievements of objectives proposed for the role of women, there are some which are worth mentioning. Without a doubt, there is growing public awareness opposed to any kind of social discrimination based on sex. Likewise, there is virtual consensus as to the right of women to fuller participation. In the majority of countries in the region the role of the State has been essential in the massive broadening of educational coverage and in the area of legislative reforms which opened up new ground for women. Likewise, significant working opportunities were created for women of the region within State bureaucracies and in

public teaching. In recent years, the majority of countries have established specialized offices at State level for the advancement of women.

The role of non-governmental organizations has been extremely important for the accumulation of new knowledge on the status of women and their needs. They have supported specific projects directed at income generation, training and mobilization. In some countries they have liaised and co-ordinated with State agencies and in others, they have instead provided alternative opportunities.

The main obstacles to women's participation stem from the persistence of cultural stereotypes regarding women's role, unfavourable economic conditions that affect large sectors of women, persistence of legal limitations in their family relationships, their as yet insufficient education and training, and lack of sufficient and adequate employment. This situation reflects the ambivalence of the region's social development, with major formal advances and with fundamental problems heightened by the crisis.

Doubtless, the crisis generates new contradictions in the female sector. Recent decades raised expectations for education, employment, new opportunities for participation, which are unlikely to end. It might even turn out that the crisis will renew more conservative and traditional models, in a tentative return of women to the home, to ease employment demands. The promotion of women's incorporation into society is a recent and precarious process. The crisis is an important factor which should be considered in the taking of necessary precautions for preventing this process of integration from being halted. The linking of women's problems to those of society as a whole, and their structural character was the tonic adopted by the region upon committing itself to the advancement of women's rights. Only decided political will to reinforce this approach will prevent reversals in the status of women in Latin America and the Caribbean. The crisis in itself does not have the power to delay or reverse advances achieved in women's social role. On the contrary, it may be used as a tool to generate new development models with more active participation by women. The option that is adopted to deal with the crisis will be more decisive in achieving that end than the economic situation in itself.

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# Unequal participation by women in the working world

*Irma Arriagada\**

Interest in studying the economic performance of women in the region dates from recent times and is related to development studies. An initial conclusion of analyses on the economic roles of the sexes was the unequal participation by men and women in the labour market. According to census records, the greater part of the adult male population appears as working population, while the majority of women appear as non-working population, i.e., they are registered as homemakers. This finding led researchers to attempt to determine its causes and to explore the different ways in which work is distributed between men and women in the areas of production and reproduction, respectively. In one way or another, Latin American societies —like those of the rest of the world— have centered women's work on the duties of social reproduction, labour force reproduction and biological reproduction. Thus, women's role in these areas determines the form and scope of female participation in productive work.

In this article, an attempt is made to outline the work undertaken by Latin American women in the labour market and in the domestic domain, since there is a complex series of interrelations between these two spheres, both of which have been seriously affected by the crisis.

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## I

### Measurement of female work

The concept of the work force —defined as the population available for work— prepared and adapted for a capitalist society under full expansion (like the United States in the 1940s) was transplanted to populations which are not totally integrated into the market and where different production modes coexist (Wainerman and Recchini, 1981). The separation of working population and total population connotes the existence of a production system where work is differentiated from other activities designed to meet the needs of everyday living. This difference is not as clearcut in precapitalist modes of production.

The concept of the work force, as Reicher Madeira (1978) indicates, measures the "advance of capitalism", i.e., how many individuals have been incorporated into the commercialization and monetization of social relations where the work force is transacted like merchandise.

In addition, since domestic and social domains are appraised differently, individuals engaged in paid work become the only ones responsible for social production and, in counterbalance, the rest are seen as dependents. The latter group includes the majority of women, with no recognition being given to the economic contribution of housework.

On the other hand, the definition of the term working population used in censuses and surveys poses a series of difficulties for the proper measurement of female work, such as:

- The definition does not record as work unpaid domestic activity carried out in the home.
- The definition considers work to be those market activities which are continuous, paid and full time. Women in general, and rural women in particular, tend to be engaged in unpaid, seasonal work and in family enterprises (Wainerman and Recchini, 1981).
- The definition used does not adequately measure work that produces goods and services for self-consumption.

— Censuses and surveys process individual variables and not those of the household. This makes it difficult to study the fundamental aspects of the availability of women for work derived from the family cycle.

— Finally, there are problems regarding the application of the definition of working population, for example, the phrasing of questions on

work, the period of reference and minimum work period.

Despite their limitations and defects, population censuses are the only statistical instruments available for measuring the main trends in the economic participation of the population over time.

## II

### Women in the labour market precariousness of social cohesion

One of the most common ways of measuring a population's economic activity is through participation rates, which relate the working age population that is employed or seeking work with the population that is neither employed nor seeking work. In recent decades, economic participation rates among the population have declined and have tended to even out in the various countries of the region. In part, this equality is doubtless due to greater uniformity in the measurement of work, but the sharp drop results from two social processes. The first is the expansion of education, which kept the youngest within the school system, and out of the labour market, and the second is the extension of social security coverage, which permitted broader sectors of the elderly population to retire and to draw pensions.

These trends apply to the working population as a whole; on the other hand, participation rates by sex reveal a dual trend. Between 1960 and 1985, on the one hand, there was a drop in male economic participation rates in all countries of the region and, on the other hand, there was an increase in female participation; the latter grew in 21 of the 25 countries, remained constant in one country and dropped in another three (table 1).

As mentioned earlier, women's performance in the labour market, unlike that of men's, is conditioned by the stage in the life cycle. Their participation tends to be influenced by marital status, number of children, place of residence

and level of schooling, in addition to other factors related to the demand for female labour. Consequently, female labour has specificities which must be highlighted.

Trends in women's participation in the labour market between 1960 and 1980/1985 have the following characteristics:

— Female work rates by age increased in the period 1960-1985 in all age-groups between 15 and 64. There was greater participation by young age-groups (20-24 and 25-29) in all countries with advanced modernization, such as Argentina, Uruguay, Chile and Costa Rica, and also in those with accelerated but unbalanced modernization which have shown relatively strong economic activity, especially Brazil, Cuba, Panama and, to a lesser extent, Peru. The trend in countries with partial or incipient modernization, such as Paraguay and Guatemala, involves rather a crystallization of the same participation structure by age that prevailed in 1960 (ECLAC, 1989a).

In terms of education, mass secondary schooling in all countries has brought about radical changes. In countries with greater modernization such as Argentina, Chile and Panama, primary education has become virtually universal and secondary schooling continues to expand. This can be seen in the extent of the female working population that in 1960 already had over 10 years of schooling, and whose proportion increased by 1980. In Argentina, 69% of working women have over seven years of school-

Table 1

PARTICIPATION IN WORK BY SEX,  
1960 AND 1985(Refined rates)<sup>a</sup>

Country	Men		Women	
	1960	1985	1960	1985
Argentina	78.3	67.1	21.4	24.7
Barbados	72.6	68.4	39.6	55.4
Bolivia	80.4	70.9	33.2	21.5
Brazil	77.9	71.8	16.8	26.6
Colombia	75.5	67.3	17.6	19.2
Costa Rica	79.3	73.5	15.0	20.6
Cuba	72.7	64.0	13.9	29.6
Chile	72.5	65.2	19.7	24.4
Ecuador	82.1	69.2	17.3	16.6
El Salvador	80.7	72.9	16.5	24.3
Guatemala	82.0	71.7	12.0	12.9
Guyana	73.9	71.8	16.7	23.6
Haiti	84.0	72.9	72.1	52.2
Honduras	82.7	74.5	13.7	15.6
Jamaica	76.9	68.7	43.6	56.0
Mexico	72.5	68.1	14.3	25.0
Nicaragua	80.5	70.8	17.3	21.3
Panama	75.8	67.1	20.2	25.4
Paraguay	78.5	75.5	21.3	19.5
Peru	73.1	66.5	20.4	21.4
Dominican Republic	75.9	70.7	9.3	11.3
Suriname	68.5	59.3	19.1	23.6
Trinidad and Tobago	71.2	69.5	25.8	26.8
Uruguay	74.3	67.6	24.1	28.2
Venezuela	77.1	68.4	17.2	25.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC) (1989): *Anuario estadístico de América Latina y el Caribe* (Statistical Yearbook for Latin America and the Caribbean) (LC/G.1550-P), 1988 edition, Santiago, Chile, United Nations publication, Sales No. E/S.89.II.G.1.

<sup>a</sup>Percentage of working population aged 10 and up, over total population aged 10 and up.

ing; in Chile and Panama respectively, 44.3% and 44.4% of working women have over 10 years of schooling. Besides constituting a kind of participation and a symbolic satisfaction of consumption by the population as a whole, changes in education have meant an accelerated training of labour. This phenomenon is quite marked, since in Latin America the female working population has higher levels of schooling than the female population that does not participate in the labour market, and than both the working and non-working male population. Although the expansion in education has been one of the keys to maintaining social mobility up to the

Table 2

FEMALE PARTICIPATION RATES BY  
MARITAL STATUS AND EDUCATION,  
1980 (WOMEN AGED 10 AND OVER)

Country	Total	Level of schooling (years)			
		0-3	4-6	7-12	13 and over
Argentina					
Single	43.3	30.2	46.7	40.3	56.2
Non-single	20.6	12.4	16.2	32.3	58.0
Brazil					
Single	33.8	23.2	35.3	57.6	75.1
Non-single	22.1	16.7	22.8	44.3	69.6
Chile					
Single	29.5	30.2	28.0	28.3	42.8
Non-single	22.2	14.8	18.2	26.3	54.8
Ecuador					
Single	21.7	22.1	19.7	17.7	48.7
Non-single	16.8	11.2	12.2	27.6	56.5
Panama					
Single	34.9	22.4	40.9	28.8	63.0
Non-single	26.5	10.9	19.3	43.9	75.2
Uruguay <sup>a</sup>					
Single	30.9	21.5	28.6	34.6	58.8
Non-single	24.5	16.5	21.4	35.4	71.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC) (1989b): *Transformación ocupacional y crisis social en América Latina* (Occupational transformation and social crisis in Latin America) (LC/G.1558-P), Santiago, Chile (in press).

<sup>a</sup>1975.

1980s, it is more apparent than real. In fact, the increase in educational levels of the working population has also brought about a devaluation of education, so that, in order to choose the same jobs workers must now possess much higher levels of education.

— There have been no major changes in participation and marital status in the period from 1960 to 1980. Participation rates for single women are generally higher than for non-single women. For women with low educational levels, marital status has a major influence on their option to work. In other words, participation rates of single women are high compared with those of non-single women. As the level of education increases, marital status becomes less important and, in the case of women with post-secondary education, its effect disappears (table 2). The greater the number of years of schooling, the greater the possibility of generat-

ing family income and of having access to goods and services on the market. In this case, other women may be hired to do housework and the number of goods and services bought on the market may increase (laundries, day-care centres, prepared foods, etc.). This way of replacing housework does not mean a delegation of responsibilities, and in some cases, an improvement in the family's economic situation could mean an increase in housework.

The logic underlying women's participation in the labour market is clear and two-fold (ECLAC, 1985a). On the one hand, the *logic of determination* forces low-income women to work, independently of the stage they have reached in the life cycle, of the education they may possess and of the income they may receive. These women are the least recorded in population censuses because they work primarily in the informal sector of the economy. On the other hand, there is a *logic of choice* for women with the highest incomes, who are incorporated into paid work not only in search of income, but also as a way to personal fulfilment. This group, inserted into the formal sector of the urban economy, is adequately recorded by censuses and has increased steadily, especially in countries with advanced modernization.

Three critical aspects may be analysed from the standpoint of labour market demand: structure of female occupations, level of feminization and changes that occurred during the period studied. With regard to the first aspect, there is census information<sup>1</sup> that points to a large segmentation of the market by sex. In the period between 1960 and 1980, regardless of the degree of modernization of the country, the majority of women worked in the service sector. Information corresponding to 1980 shows that the female population incorporated into the service sector varied between 55% (in Panama) and 38% (in Peru), with rates between 45% and 54% in the remaining countries (table 3). Female participation in agriculture and manufacturing decreased in the period studied, which meant a continuation of the "tertiarization" process. However, in countries with advanced and

accelerated modernization, the internal breakdown of the service sector changed; female occupation increased in the social services sector and decreased in the personal services sector.

From the degree of feminization of certain occupations (table 4), the following may be inferred:

— Greater degrees of feminization, i.e., greater percentages of women in each occupational group, are found in the group of workers engaged in domestic service and laundering, of which between 89% and 99% of those employed are women. Men who do engage in these jobs work as restaurant waiters, hotel employees, etc., and a very small proportion of them work in private homes (and are paid considerably more than women).

— Another category in which some feminization is also observed is that of professionals and technicians. By 1980 over half of these were women (except in Ecuador), because most of the main activities in this group—education and health—are carried out by women.

— Another occupational sector with a high proportion of women is that of spinners, tailors and dressmakers, in which over half of those employed are women.

In the period from 1960 to 1980, female participation by occupational groups did not experience major changes in terms of the proportion of women found in the various categories. In general, this proportion increased somewhat more among office workers and sales persons, although by 1980 women were still a minority in these categories. Generally speaking, the labour market continues to be very segmented, since occupations traditionally defined as female have not changed and no other occupations have opened up with significant numbers of women. Together with segmentation, the incorporation of women into production has been predominantly bipolar. Very many women work at the manual level, almost exclusively as maids, and another majority group is engaged in non-manual labour: professionals, office-workers and saleswomen.

Lastly, occupational trends in the 20 years studied show that most women have been incorporated into non-manual jobs: over half of the increases that occurred at this level can be attributed to female employment. Although this sug-

<sup>1</sup> This refers to tabulations from 1960, 1970 and 1980 census samples. For a more detailed analysis refer to ECLAC, 1989b.



Table 3  
PERCENTAGE DISTRIBUTION OF WORKING FEMALE POPULATION  
BY AREA OF ACTIVITY, 1980<sup>a</sup>

Area of activity	Argentina	Brazil	Costa Rica <sup>b</sup>	Chile <sup>b</sup>	Ecuador <sup>c</sup>	Guatemala <sup>d</sup>	Panama	Paraguay <sup>c</sup>	Peru <sup>b</sup>	Venezuela <sup>b</sup>
Agriculture and hunting	3.1	14.2	6.4	2.8	12.6	9.7	7.9	12.0	24.9	2.6
Mining and quarrying	0.1	0.1	0.0	0.2	0.1	0.1	0.1	0.0	0.4	0.4
Manufacturing	16.9	18.6	20.3	15.7	15.5	18.8	8.5	20.8	12.0	16.2
Construction	0.3	0.5	0.4	0.1	0.3	0.2	0.9	0.1	0.1	0.6
Electricity, gas and water	0.8	0.5	0.3	0.4	0.8	0.6	1.0	0.2	0.3	1.1
Commerce	18.8	12.5	20.6	23.6	18.5	21.9	17.4	15.6	20.2	21.1
Transportation and storage	1.4	1.4	1.1	1.8	1.0	0.8	3.7	1.2	1.3	2.1
Financing	5.1	2.8	2.2	2.8	2.5	2.6	5.3	2.1	2.7	6.0
Services	53.4	49.4	48.7	52.6	48.7	45.3	55.2	48.0	38.1	49.9
Total: %	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Thousands	(2 772.7)	(11 660.0)	(197.1)	(1 035.7)	(479.4)	(245.2)	(149.7)	(209.2)	(1 272.9)	(1 230.0)

Source: (ECLAC) (1989b): *Transformación ocupacional y crisis social en América Latina* (Occupational transformation and social crisis in Latin America) (LC/G.1558-P), Santiago, Chile (in press).

<sup>a</sup>Working population aged 10 and over, excluding those seeking work for the first time. Activity areas are classified according to the Uniform International Industrial Classification of all Economic Activities (UIC).

<sup>b</sup>Data from household surveys.

<sup>c</sup>1981.

<sup>d</sup>1982.

Table 4  
FEMINIZATION OF OCCUPATIONS, 1980<sup>a</sup>

Occupation	Argentina	Brazil	Chile <sup>b</sup>	Ecuador	Panama	Uruguay
Professionals and technicians	51.9	56.0	53.7	42.5	54.3	57.4
Nurses and paramedics	83.8	78.9	84.6	62.3	74.5	83.1
Professors and teachers	84.7	85.8	63.8	54.9	70.0	76.4
Directors, managers, administrators and owners	9.8	17.1	15.4	29.5	19.8	17.1
Office workers	41.4	44.9	41.4	45.4	64.4	35.2
Secretaries, telephone operators				66.4	81.7	
Saleswomen, store owners	27.8	34.0	38.4	30.0	34.6	27.0
Salesmen and salesclerks	29.8	41.1	37.6	31.3	38.1	41.5
Farm workers	5.4	13.1	4.7	7.4	3.8	4.4
Artisans, factory workers, spinners, tailors and dressmakers	10.8 <sup>d</sup>	16.5 <sup>d</sup>	64.8	44.8	64.9	70.0
Other workers and labourers			12.5	13.7	12.4	6.1
Personal service workers	64.3	69.7	71.4	58.5	55.6	61.8
Maids, washerwomen	98.3	92.4	95.3	89.7	89.3	98.9
Total	27.5	27.5	29.3	20.8	27.6	28.6

Source: (ECLAC) (1989b): *Transformación ocupacional y crisis social en América Latina* (Occupational transformation and social crisis in Latin America) (LC/G.1558-P), Santiago, Chile (in press).

<sup>a</sup>Percentage of female working population *vis-à-vis* total working population in each occupational group.

<sup>b</sup>Data taken from home surveys.

<sup>c</sup>Information available did not allow the separation of secretaries and telephone operators from the remainder of office workers.

<sup>d</sup>Information available did not permit the separation of spinners, tailors and dressmakers from female artisans and workers.

gests a trend towards an improvement in women's occupational status, the history of some countries of the region indicates that increases in women's schooling and in their numbers within

non-manual occupations has not raised their incomes, since their employment continues to be segmented within occupations considered to be female, i.e., lower in prestige and pay.

### III

## Women's domestic work

Up to now, we have been examining occupations engaged in by women in the labour market. To understand the forms taken on by work outside the home, we should also examine housework done by women in their homes. Housewives without paid employment in the region constitute between 30% and 50% of the female population over 15, depending on the country. Thus, according to data from household surveys, in 1985, out of the total of women over age 15, housewives accounted for 32% in Bogotá, 44% in Caracas, 40% in Panama, 48% in San José, Costa Rica and 55% in São Paulo.

It is difficult to define housework. At a general theoretical level, it is the "series of maintenance activities required to reproduce the work force daily, which includes the transformation of goods into valuables for consumption use" (Benería, 1984, p. 25). In all societies, housework is distinguished from non-domestic work and is considered to be predominantly women's work. However, at a concrete level, the definition is very heterogeneous in terms of the forms which housework takes on. It varies depending on family cycle stage, social class, cultural, ecological and regional conditions, degree of development and modernization and, in a very definitive way, on the ideological conceptualization adhered to by society on the role of women as "mother-wife-housewife".

Until recently, there were no quantitative studies measuring housework done by women in Latin America.<sup>2</sup> This lack of concern results

from the fact that unpaid housework done by women, which is very heterogeneous, is not considered to be work as such, because it is not transacted on the market and, therefore, is not recorded in national accounts. However, early in the 1970s, ideological changes regarding women's role in society and the conception of their work, began to emphasize the importance of unpaid housework in the reproduction of the population. This situation was reinforced by the crisis, when the importance of housework became more apparent, particularly among the popular sector. Here, the decrease in basic goods and services had to be supplemented by female housework (Barbieri and Oliviera, 1985). Thus, the importance of housework helps to explain the relatively low rates of participation by married women, in particular among the lower strata of the population.

A pioneer study by the International Labour Organisation (ILO, 1984), shows that among women in Latin America, time dedicated to housework is often equal to or greater than that dedicated to paid work in the market, so that a high proportion of housewives are "overemployed". In a study on Chile, it was calculated that housewives worked an average total of 56.3 hours a week, out of which 37.9 hours were devoted to housework, not counting work outside the home. Thus, housewives had an eight hour workday every day without Sunday rest, while for women who were also employed outside the home, the total time worked was 12 hours a day (Pardo, 1983). In terms of value, these measurements suggest that housework could be equivalent to between one third and one half the families' monetary income. In the case of poor households, it is more important since it constitutes an essential element in survival strategies. In the same study on Chile, it was

<sup>2</sup>For an exhaustive discussion on ways to measure housework, see Goldschmidt (1987). This article examines values attributed to housework by substitute workers, wages for equivalent function in the market, opportunity costs and average or minimum wage in the market.

estimated that the contribution by women's housework to gross geographical product reached 30%, and that it was exceeded only by the manufacturing sector. Given the characteristics of housework, it is possible to suppose that in other countries women's contribution is equal or similar.

Likewise, studies done by the ILO (1984) on Argentina, Bolivia, Chile, Mexico, Peru, Venezuela and Uruguay have confirmed some important hypotheses:

a) The incorporation of women into the labour market does not mean a correlative reduction of work in the home, i.e., women who work actually perform two work shifts a day.

b) The increase in family income has not meant less housework for the homemaker; what has changed is its composition, as a result of

which the most unpleasant chores have been delegated to third parties. In fact, housewives continue to do housework, and they have even incorporated some new chores that relate to an improved social position.

c) Housewives who rely on technical equipment within the home devote almost as much time to housework as do those who live in houses without such equipment. The important difference lies in the intensity of personal effort involved, since technological development actually helps to recreate women's reproductive role.

d) With regard to the economic crisis, although housework has increased, men have not increased their contribution to it. Thus, although the role of men as main providers has declined, this did not mean correlative increases in housework.

## IV

### The crisis and its repercussions on women's work

From the 1950s onward, and for three decades afterwards, Latin American countries experienced sustained growth in their economies, with some variations. But from 1980 onwards, there began a drastic decline in this growth.<sup>3</sup>

The repercussions of the crisis and of the adjustment policies implemented became evident in the labour market in three main ways (Tokman, 1986a and 1986b): a) declines in employment growth rates; b) modification of the type of employment generated, with increases in the informal sector and "tertiarization" and c) reductions in real wages.

#### 1. *The crisis and unemployment by sex*

Unemployment was one of the results of the crisis which became evident in a more drastic and rapid manner in the labour market. For the work force as a whole, between 1980 and 1985, the number of unemployed persons in the region

grew by 48% (ECLAC, 1987). The following is an examination of the ways in which the crisis affected the labour market in the cities of Bogotá, Caracas, Panama, San José, Costa Rica and São Paulo. The effects of the crisis on men and women are analysed for the years 1982 and 1985.<sup>4</sup>

In 1985 unemployment rates in these five Latin American cities reached magnitudes of between 5.2% (São Paulo) and 13.6% (Bogotá). A comparison based on sex shows that the range at which male unemployment rates vary is much lower than for female rates: between 5% and 10% for the former and between 6% and 19% for the latter. Thus, with the exception of Caracas, women's unemployment rates in the various cities are higher than for men, and the variations are greater between countries. The latter difference may be due to difficulties in measuring female unemployment, which in many cases remains hidden in the category of housework (table 5).

<sup>3</sup>For detailed information on the crisis see (ECLAC, 1987); (ECLAC, 1986a); (ECLAC, 1986c) and (ECLAC, 1985c).

<sup>4</sup>This information is derived from the respective household surveys. A series of special tabulations was made. For greater details, see ECLAC, 1988.

In the past, female unemployment rates were greater than those for males. This statement confirms information gathered by the Regional Employment Programme for Latin America and the Caribbean (PREALC, 1982) on six countries in the region, according to which, between 1970 and 1980, this situation occurred in all countries. The biggest difference was found in Panama and the smallest in Brazil.

In order to explain higher female unemployment, we must bear in mind that the Latin American economies are not dynamic enough to absorb the growing labour force. Besides, there is an oversupply of female labour for the limited number of occupations available to women. This is due to the high degree of segmentation of the work force by sex. On the other hand, it is argued that, as women are not usually heads of households, they can "allow" themselves to be unemployed because they are not the main economic support of the family group. This is the classic argument used by employers for hiring fewer women or for paying them lower wages (Ribeiro and Barbieri, 1978). However, this argument is contradicted by the growing number of female heads of household. In recent years women have come to account for between a fifth —and, in the

case of the Caribbean, a third— of total heads of household (ECLAC, 1984) (Massiah, 1984).

The economic situation in Brazil runs counter to the general trend recorded in other countries. Until 1986, Brazil had succeeded in resolving external imbalances at a lower recessive cost, as compared with the rest of Latin America. As was indicated in the preceding section, prior to the crisis, Brazil experienced major progress in the growth of per capita gross domestic product and in the creation of new jobs for men and women. However, this progress was also accompanied by marked inequality in income distribution and in access to different sectors of the labour market (ECLAC, 1986b) (ECLAC, 1986d). Recent information shows that the effect of the crisis on the informal and formal labour markets did not affect participation rates by women. On the contrary, these continued to grow during the most critical period in the Brazilian economy, which was more obvious in the formal sector than in the informal sector (Spindel, 1987).

Between 1982 and 1985, female unemployment increased almost five-fold in Bogotá, and in Caracas it practically doubled. In São Paulo it increased somewhat, while it decreased in Panama and San José, Costa Rica. Unemployment rates were highest among youths between the ages of 15 and 19, reaching over 30% in Bogotá and Panama (tables 5 and 6). Between 1984 and 1987 unemployment in Mexico was greatest among the population aged 15 to 19, and among the unemployed the percentage of those looking for work for the first time was higher among the female population than among unemployed males (De Oliveira, 1987).

While the rate of female unemployment increased in the majority of cities, the number of jobs held by women rose, as may be seen by examining employment rate performance.<sup>5</sup> This trend is observed in three of the five cities: Bogotá, Caracas and São Paulo. A similar trend is also observed in Uruguay, a country where women poured into the labour market and where the process became irreversible (Prates, 1987).

<sup>5</sup>The employment rate is the ratio between persons effectively employed and the working age population. Unlike the working rate, the employment rate does not include either unemployed persons of first time job-seekers.

Table 5

## UNEMPLOYMENT RATES BY AGE AND SEX, 1985

City	Population 15 years and older	Population aged 15-19	Population aged 20 to 24
Bogotá	13.6	33.9	22.3
Men	10.1	32.3	17.8
Women	18.6	35.6	27.2
Caracas	9.8	21.5	15.6
Men	10.5	23.8	16.1
Women	8.6	16.7	14.8
Panama	10.4	32.3	22.7
Men	9.4	30.6	19.9
Women	12.2	34.7	27.7
San José	7.3	19.8	13.1
Men	6.8	18.5	11.7
Women	8.2	21.8	15.3
São Paulo	5.2	13.7	7.2
Men	5.0	13.4	7.2
Women	5.6	14.2	7.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), Social Development Division, special tabulations based on the respective home surveys.

Table 6  
FEMALE EMPLOYMENT AND  
UNEMPLOYMENT RATES, 1982 AND 1985

City	Employment rates		Unemployment rates	
	Total women	Women aged 15-24	Total women	Women aged 15-24
Bogotá				
1982	35.8	29.5	4.2	8.7
1985	39.9	33.0	18.6	30.0
Caracas				
1982	35.3	26.9	4.8	8.3
1985	37.2	27.5	8.6	15.3
Panama				
1982	33.6	24.4	14.2	29.3
1985	33.8	21.4	12.2	30.3
San José				
1982	37.7	34.1	9.2	18.5
1985	32.4	29.4	8.2	17.5
São Paulo				
1982	35.4	49.5	4.7	7.5
1985	42.5	51.1	5.6	10.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), Social Development Division, special tabulations based on the respective home surveys.

While the incorporation of women into the labour market has tended to remain constant, there has been an increase in female participation *vis-à-vis* the drop in family income. Thus, women's participation in the Latin American labour market during the crisis of the 1980s has had the opposite effect to that recorded during the crisis of the 1930s in the United States, a country where women withdrew from the labour market to allow greater employment opportunities to the male population.

In Latin America, as a consequence of the decrease in family income during the recession, other household members, especially young women have joined the formal and informal labour markets in search of paid work to compensate for this drop (ICRW, 1986).

The reason for this difference in performance is unclear. On the one hand, it may be said that appraisal of female work has changed, so that now women place greater value on working outside the home. However, it is probable that women in the middle and upper echelons behave in similar fashion to North American women in the 1930s: within their logic of choice, as wages

drop, they withdraw from the labour market. For their part, women in the popular sectors, following the logic of determination, have had to work outside the home in all parts of the formal, and in particular the informal, labour markets.

From the situations examined we may conclude that, within the context of the crisis, unemployment levels have increased considerably, particularly among women and youths, and the capacity for absorption of the labour force has declined. The diversity of situations in the various countries is due to the different trends in income, the greater or lesser capacity of the economic system to generate new jobs, the adjustment policies implemented and public and social investment programmes.

One may say, then, that trends towards the broadening of the labour market for women, which had been in evidence since the 1950s persist. But the great increase in growth rates in the female work force for the period 1950-1985 did not ensure their absorption as a productive force, which particularly affected young women recently incorporated into the labour market.

With regard to the insertion of women in employment, female occupational structures remained constant despite the crisis, and significant changes in the segmentation of the labour market by sex are not likely in the short term. In effect, this segmentation has not been greatly affected by the economic changes of the crisis period; instead, the ideological rigidity which defines jobs as "female" and "male" prevails.

For a more in-depth analysis, one would need to review records on the forms taken by women's participation in the informal sector. Much of the qualitative research done shows that in times of crisis women at the poorest levels become incorporated into the work force, but they are not measured adequately by either population censuses or household surveys (Raczynski and Serrano, 1985) (ECLAC, 1984) (Leon and Arriagada, 1987).

## 2. Income distribution by sex

Income distribution in Latin America has always been unequal, although variations depend on the degree of development of a country and the prevailing political and social model. Thus, income concentration in the upper echelons has

reflected differentiated access to property and to use of goods and services.

In Latin America no recent comparative studies have been made on income differences between men and women. National studies show that income received by women is lower than that obtained by men, although this difference varies between countries. In the case of Chile, for example, between 1960 and 1985, average female income did not exceed 68% of male income, once the education level variable was controlled. This relation has not changed in the past quarter of a century (Leiva, 1987).

If average income differences are analysed by sex and age, it is seen that among the young population these differences are less and that they increase as age increases. This leads to the conclusion that women progress less than men, which deepens the income disparity between sexes of equal age (AES, 1987).

It can also be said that, by having higher education levels, young women incorporated into the labour market reach higher occupational levels, but only a diachronical analysis would allow one to confirm whether they maintain their positions over time.

In 1985, among the five metropolises studied, the female population received between 53% and 84% of average male income (São Paulo, 52.8%; Caracas, 60.8%; Bogotá, 66.3%; San José, Costa Rica, 79.9% and Panama, 83.5%).

One might ask whether the difference in income between men and women results from women's lack of skills. However, in the five cities studied, the average income of employed men and women with equal levels of schooling, showed major differences, and in all cases, the higher the level of schooling, the greater the gap in income, to the detriment of women. Thus, the difference in income by sex among illiterate persons is much lower, and in San José, Costa Rica average female income is slightly higher. At university levels (over 12 years of schooling), differences in income are markedly greater between the sexes. The extreme case is presented by São Paulo, where average male income is double the average female income (table 7).

Average income indicators by male and female occupation (table 8), show that male income is always higher for the same occupa-

tions. Once again, as we pass from manual to non-manual occupations, the gap between incomes widens, with the greatest differences being observed between average male and female incomes among professionals, managers, administrators and directors. Whether for men or women, these occupations are the best paid.

Heads of household, be they men or women, have much higher income levels than men and women of the total population. However, the difference between heads of households of each sex is much greater than that which exists between men and women of the population as a whole (table 9). This pattern repeats itself in all countries and in similar magnitudes, thus prompting the need for thought about this group of female heads of household whose living conditions are among the worst of the region.

The greatest disparity between female and male incomes, both in the population as a whole and among heads of household, is observed in São Paulo. This city has recorded one of the most spectacular increases in female participation in recent years. However, this has been possible at the expense of women accepting much lower wages than men. In this case, as in Uruguay, female occupation constitutes a "stagnated labour reserve" made up of active workers but with irregular work whose pay levels are below normal working class levels (Prates, 1987).

Between 1982 and 1985 the relative average income of women declined in Bogotá and Caracas, remained constant in Panama and grew only in San José, Costa Rica, a country where there was a strong decrease in occupation, i.e., the opposite of the São Paulo process. In relation to education levels, women who saw decreases in their average income again were those with intermediate levels of schooling, i.e., between 7 and 12 years. During the process, average incomes of women with the highest and lowest levels of schooling tended to draw closer, so that in 1985 the difference in income due to schooling was much lower (table 10). Thus, a drop in average female wages occurred; in other words, the equalization was towards lower income levels.

With regard to occupations, women who lost the most income during this period were office workers—which coincides with that recorded at the intermediate levels of schooling—and self-

Table 7

**AVERAGE INCOME INDICATORS AMONG WORKING POPULATION  
BY SEX AND LEVEL OF SCHOOLING, 1985<sup>a</sup>**

City Level of schooling	Bogotá		Caracas		Panama		San José		São Paulo <sup>b</sup>	
	M <sup>c</sup>	W <sup>d</sup>	M	W	M	W	M	W	M	W
No schooling	61	42	53	40	...	...	70	76	50	23
Primary									78	37
0 - 6 years	69	52	76	46	63	42	77	52	84	44
Secondary										
7 - 12 years	93	70	104	65	99	83	104	82	142	77
University										
13 years and over	263	152	221	134	251	157	175	140	335	150
<b>Total</b>	<b>115</b>	<b>76</b>	<b>116</b>	<b>71</b>	<b>106</b>	<b>88</b>	<b>107</b>	<b>85</b>	<b>117</b>	<b>62</b>
Average population income	100		100		100		100		100	

Source: ECLAC, Social Development Division, special tabulations based on the respective home surveys.

<sup>a</sup> Average income for total population is taken as a basis for the index (= 100).

<sup>b</sup> Levels of schooling in São Paulo are: no schooling; 1 to 4 years; 5 to 8 years; 9 to 11 years; and 12 years and over.

<sup>c</sup> M: Men.

<sup>d</sup> W: Women.

Table 8

**AVERAGE INCOME INDICATORS OF WORKING POPULATION  
BY SEX AND OCCUPATION, 1985<sup>a</sup>**

City Occupation	Bogotá		Caracas		Panama		San José		São Paulo	
	M <sup>b</sup>	W <sup>c</sup>	M	W	M	W	M	W	M	W
Professionals	313	193	240	154	317	180	200	175	340	142
Technicians and similar workers	197	154	138	71	164	118	167	125	168	72
Directors and managers, public administrators	540	373	205	175	195	158	234	124	347	191
Secretaries and tellers	105	85	77	70	91	101	98	50	95	102
Business employees	89	43	102	76	110	76	93	69	114	52
Self-employed businessmen	163	78	118	49	67	51	116	79	149	69
Skilled and semi-skilled workers	75	49	89	60	88	67	81	73	86	93
Unskilled workers	61	51	75	46	69	65	75	63	40	33
Domestic employees	58	54	48	40	60	33	80	46	28	20
<b>Total</b>	<b>116</b>	<b>74</b>	<b>116</b>	<b>70</b>	<b>106</b>	<b>88</b>	<b>107</b>	<b>85</b>	<b>117</b>	<b>62</b>
Average population income	100		100		100		100		100	

Source: ECLAC, Social Development Division, special tabulations based on the respective home surveys.

<sup>a</sup> Average income for total population is taken as a basis for the index (= 100).

<sup>b</sup> M: Men.

<sup>c</sup> W: Women.

employed saleswomen. Only in Caracas did average professional incomes drop. In the other cities they remained constant and even increased (table 11). A comparison of the average income of the highest and lowest paid occupations, shows that in Bogotá, income concentration by occupation increased, widening the gap between both extremes.

In Caracas and San José, Costa Rica, on the other hand, the difference between these wages decreased, and in Panama they remained constant.

An initial analysis of what occurred during the crisis shows an increase in income inequality

among workers, both men and women. There has been a general decrease in wages among women, but particularly so at intermediate levels, which has given rise to lower concentrations of income, so that differences due to different levels of schooling and to different types of occupation have tended to decrease.

In summary, the crisis has had a very severe impact on the labour market and on all workers, but has particularly affected women in a negative way. This situation has consequences for specific social policies among the female segment, as well as for female heads of households and young women, who have been the hardest hit.

Table 9

#### AVERAGE INCOME INDICATORS BY HEAD OF HOUSEHOLD AND SEX, 1985<sup>a</sup>

City	Total population			Heads of household		
	Total	Men	Women	Total	Men	Women
Bogotá	100	116	74	134	140	95
Caracas	100	116	70	133	140	81
Panama	100	106	88	118	123	95
San José	100	107	85	119	127	84
São Paulo	100	117	62	135	141	80

Source: ECLAC, Social Development Division, special tabulations based on the respective home surveys.

<sup>a</sup> Average income for total population is taken as a basis for the index (= 100).

Table 10

#### AVERAGE INCOME INDICATORS FOR FEMALE WORKING POPULATION BY LEVEL OF SCHOOLING, 1982 AND 1985<sup>a</sup>

Schooling	Bogotá		Caracas		Panama		San José	
	1982	1985	1982	1985	1982	1985	1982	1985
No schooling	50	42	46	40	28	-	29	76
1 - 6 years	63	52	53	46	41	42	46	52
7 - 12 years	117	70	81	65	84	83	73	82
13 years and over	161	152	146	134	148	157	137	140
Total	98	74	77	71	86	88	72	85
Average population income	100		100		100		100	

Source: ECLAC, Social Development Division, special tabulations based on the respective home surveys.

<sup>a</sup> Average income for total population is taken as a basis for the index (= 100).



Table 11

FEMALE AVERAGE INCOME INDICATORS FOR SOME OCCUPATIONS, 1982 AND 1985<sup>a</sup>

Occupation	Bogotá		Caracas		Panama		San José	
	1982	1985	1982	1985	1982	1985	1982	1985
Professionals	173	193	181	154	173	180	163	175
Technicians and similar workers	163	154	79	71	95	118	123	125
Directors and managers, public administrators	179	373	197	175	184	158	159	124
Office workers	130	85	74	70	100	101	88	50
Saleswomen	92	43	81	76	74	76	53	69
Self-employed saleswomen	80	78	61	49	50	51	102	79
Maids	37	54	42	40	36	33	25	46
Total	98	74	75	70	85	88	72	85
Average population income	100		100		100		100	

Source: ECLAC, Social Development Division, special tabulations based on the respective home surveys.

<sup>a</sup> Average income for total population is taken as a basis for the index (= 100).

## V

## Repercussions of the crisis on families of the popular sector<sup>6</sup>

Up to now, this analysis has focused on the effects of the crisis on the segment of paid women workers. However, an important group of women have yet to be considered, i.e., those who work in the home, about whom no quantitative records exist. Therefore, the following is a review of results from some primarily qualitative studies, which show what has taken place in the domestic domain of the popular sectors.

As already mentioned, the crisis had a specific effect on women. Housewives of the popular sector saw their precarious situation worsen. This was particularly reflected in the difficulty in finding paid work and in high unemployment rates which affected both men and women of that sector. At the same time, the crisis made itself felt within family life, in daily household chores and in the burden of domestic work which women had to shoulder.

Some information on the region indicates that in some countries the extended family has increased, so that more than one family group coexists in one household. In the majority of cases, this involves sons and daughters who have formed their own families but who have been unable to become independent. Also, there are distant relatives or non-kin who have put up precarious constructions within the same building lot and with whom they share water, electricity and, in some cases, food. This phenomenon of "dependent families" includes those that are dependent on the lot, on housing and the lot and those that are totally dependent, i.e., families that completely depend on the families that have taken them in. Both in Chile

<sup>6</sup>This section is based on the following studies: Jelin and Gogna, 1987; De Oliveira, 1987; Zuleica, 1987; Raczyński and Serrano, 1985 and Hardy, 1985.

and in Brazil this process of the growth of dependent families has been widely described.

It has also been shown that during the crisis the number of workers or working personnel per family has increased, particularly in the popular sectors where, in many cases, younger children are incorporated into various informal and self-employed activities. This change in family structure has meant a greater workload for women, from two perspectives: resources for reproduction have declined, and the number of persons to be supported have increased.

Some studies have pointed out that prolonged unemployment gives rise to various family survival strategies that differ between men and women. Male strategies are based at first on the search for work related to their own occupations or to some previous work, through friends and ex-fellow workers. At the second stage, the search extends to any kind of work, which means self-employment or, in other cases, the undertaking of sporadic and low-paying jobs which generally end up swelling the informal sector of the economy. Frequently, this permanent frustration over prolonged periods of unemployment leads to excessive alcohol consumption, which causes family problems, strife and family violence.

For women, the strategies are varied in nature. Like men, they begin the search for income by doing part-time, irregular, unstable and very low-paying work, which to a large extent is an extension of their domestic role: sewing, laundry, domestic service on a wage basis or by the hour, sale of food, etc. Another different alternative is to participate in groups of women who join forces to face the same types of survival problems together, whether by generating income or for obtaining the goods necessary for survival of the family unit. What is new about this type of female response is that women face the problem of survival collectively and not as individuals. At the same time as it provides a more "social" view of the problem, there is an increase in opportunities for female participa-

tion and self-valuation, since what was normally an exercise of domestic chores becomes work that is considered as such.

There are various stages which domestic organizations go through and that have a direct impact on the increase in women's workload.<sup>7</sup> The first thing that happens is that bills are left unpaid, i.e., mortgage payments if they exist, gas and electricity, and lastly water bills. This means that women have to use firewood to cook, which in many cases involves going out to collect it. They must also fetch water from public standpipes that are a long way from the house, etc. Later, personal property is sold: the refrigerator, dishes, clothing, household repair materials, etc. All these sales impose an additional burden on women since they are deprived of the essential tools for carrying out household chores. Lastly, articles such as clothing, shoes, and household furnishings, which break down or wear out, are not replaced. Neither do they have the minimum amount of money necessary for transportation to go out and look for work, since all the money that they manage to scrape together is spent on food. Likewise, not only does the place where they shop for food change, but also the amount spent and amounts bought, with housework thus becoming excessive. Neither can they plan for the future. "Immediacy and the solution of permanent small crises becomes the lifestyle of popular sectors" (Jelin and Gogna, 1987 p. 9).

This increase in domestic activity, due to the excessive work derived from the crisis, added to the feeling of inadequately fulfilling the reproductive function assigned to them by society, tends to cause serious depressions and psychosomatic disorders among many housewives.

This raises the question as to how serious the crisis would be if women did not shoulder most of the resulting burdens at a high personal cost.

<sup>7</sup>The majority of qualitative studies have been carried out in countries with advanced modernization (Argentina, Chile, Uruguay and also in Brazil).

## VI

### Conclusion

One may conclude from the statistical and qualitative data provided that the repercussions of the crisis have had a different effect on workers of both sexes. With drastic reductions in household income, women, unlike men, have increased the rate at which they are incorporated into the formal and informal labour markets. In this way, participation rates continue to grow, although their internal breakdown varies, since occupations increase at lower rates and unemployment increases significantly, particularly among the 15 to 19 age group.

The segmentation of the labour market by sex has not experienced major variations attributable to the crisis. The informal sector has increased, although the recording of it in household surveys is not exhaustive. Paid housework, which had progressively declined between 1970 and 1980 increased during the period 1982-1985. In this way, the structure of occupations considered to be female remains constant despite the crisis, and it is not likely that there will be major changes in the segmentation of the labour market by sex over the short term.

Lastly, with regard to income distribution by sex, one may conclude that the gap between workers of one and the other sex is more clearly observed in this sphere. This situation of inequality has been heightened by the crisis, to the point where average female income in some cases accounts for half of the average male income. This discrepancy becomes greater in the case of heads of household. Data by degree of schooling and type of occupation show that the average income which declined the most was that of women with non-manual low-level occupations, i.e., self-employed saleswomen, office workers and others, corresponding to groups with intermediate levels of 7 to 12 years of education.

Likewise, the process of maintenance and reproduction of the work force of which women are in charge, particularly in the popular sectors, becomes increasingly difficult. In this way, women in these sectors must extend and intensify their working day to compensate for the decrease in goods and services caused by the crisis.

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# From agrarian reform to associative enterprises

*Emiliano Ortega\**

The challenge of agrarian reform lies not only in the expropriation of farms or the recovery of public lands, but also in the capacity to generate new forms of organization and socioeconomic linkages for the peasant. A review of the examples of agrarian reform after 1960 reveals that almost without exception they considered at some time that associative forms of organization of production could fulfil those objectives.

This article centres on the use made of such associative approaches as theoretical and practical instruments for agrarian reform. It is based on case studies carried out in eight countries of the region by national specialists working on previously discussed and agreed methodological bases in which agrarian reform and associative enterprises were seen as a single undivided nucleus of theory, action and results.

The achievement of the objectives sought through such reform depended largely on the quality of design, the structural characteristics, and other aspects of the associative enterprises which were formed.

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## Introduction

Studies conducted in 1987 on associative forms of production and labour in Latin American agriculture responded to the Joint ECLAC/FAO Agriculture Division's interest in understanding the origin and development of these new production structures arising out of the agrarian reform processes in the region. The challenge of agrarian reform does not lie in the expropriation of land or reclamation of public land alone, but in the capacity to generate new forms of organization and socioeconomic relationships for the peasant.

The research was based on case studies in eight countries of the region by national specialists, who based their work on previously discussed and agreed methodologies. The countries studied were: Colombia, Chile, the Dominican Republic, Ecuador, El Salvador, Honduras, Panama and Peru. In El Salvador, the research was based on secondary information gathered by the Joint ECLAC/FAO Agriculture Division.

The agrarian reform experience since 1960 demonstrates that there was an almost universal conviction at one time that associative forms of productive organization could play the above-mentioned role. Thus, in the case of Peru, Act No. 17 716 of 1969, in addition to putting an end to the *latifundium* system, established the associative enterprise as the principal form of land-holding and hence of rural social organization. The same occurred in Colombia between 1968 and 1976, and in Panama after 1969. In Chile, associative forms began to be created in 1965; the same has been true in Honduras since 1967 and in El Salvador since 1980. In Ecuador, associative forms have been in operation since 1968. In the Dominican Republic, some were already established in 1972, despite the preponderant State component in the management of the enterprises, which considerably weakened their associative character.

Agrarian reform and associative enterprises were considered in the present study as a single core of theory, action and findings. The goals which the reforms hoped to achieve largely depended on the quality of the design, structural characteristics and other aspects of the associative enterprises being established. This fact was used as a guide for the present study, whose analysis centres on the associative experience as a theoretical and practical tool of agrarian reform.

## I

## Historical and ideological elements of agrarian reform

In the 1950s, the socioeconomic and political situation of most Latin American countries tended to change. The population grew at a rapid rate; migration from the rural areas to the city created new urban problems; the diversification and growth of the economy became priority social tasks; industrialization progressed to varying degrees, depending on the country; the State intervened increasingly in the economic and social order; and, lastly, public administration became stronger and public services were extended. While this was occurring in the cities, it was increasingly difficult in the rural areas to make the technical, productive and social adjustments appropriate to the ideological and socioeconomic change in general, and to the needs of the peasants in particular.

Around 1950, technical progress in the primary sectors of the Latin American economies was uncertain. ECLAC<sup>1</sup> noted at that time that the region had entered a "new stage in the general spread of technology, although technical methods are still far from having been assimilated completely in primary production". Agricultural production was mainly based on land and labour as decisive factors. Modern technological inputs were put to limited use. Besides low productivity, the rural population, which represented 54% of the regional population in 1950, suffered from an unequal distribution of income and poor living conditions.

For this reason, ECLAC related industrial development to agricultural technification as a whole. As Prebisch pointed out in 1954, "industrialization is an ineluctable requisite of economic development and constitutes an essential complement to technical progress in agriculture".<sup>2</sup> ECLAC also referred to land tenure as an

obstacle to economic development. The fact that "a considerable portion of ... land ... remains in the hands of a relatively small number of persons ... makes it almost inaccessible to the landless farmer ... Hence the unusual phenomenon of the minute subdivision of the land into numerous small uneconomic holdings that constitute a small part of the total area, while an insignificant number of landowners holds the greater part of available land ... The solution to the problem of land tenure is only a part of the general problem of economic development, if the considerable proportion of persons gainfully employed in Latin American agriculture is taken into account".<sup>3</sup>

Throughout the 1950s, the conviction grew that there was an inescapable need to deal with the agrarian problem through structural transformation—from the dual perspective of distributive justice and rising productivity—with an increasingly integral connotation. This is how agrarian reform took on its full meaning as an instrument of socioeconomic development since the 1960s.

In Bolivia, Cuba and Guatemala, agrarian change during the 1950s helped promote the agrarian reforms being analysed in the present study, which have been on the rise since 1960.

In Latin America, discussion of agrarian reform focused on the relationship between proposals for redistribution and those for raising productivity. The importance given to productivity was based on the assumption that its increase would facilitate redistribution, since at least part of it could come from the margin previously unexploited in traditional agrarian systems.

In this framework, it was possible to characterize the holdings which were fulfilling their *social function* or which were being used in the

<sup>1</sup> United Nations, *Economic Survey of Latin America and the Caribbean*, 1949 (E/CN.12/164/Rev.1), New York, 1951. United Nations publication, Sales No. 1951.II.G.1.

<sup>2</sup> R. Prebisch, *International Co-operation in a Latin American Development Policy* (E/CN.12/359), New York, September 1954. United Nations publication, Sales No. 1954.II.G.2, p. 6.

<sup>3</sup> R. Prebisch, *Theoretical and practical problems of economic growth* (E/CN.12/221), Santiago, Chile, CEPAL, 1952.

public interest, and thereby discriminate between them. This new view of the role of property was established as a basic *principle* in the agrarian reform laws, and in some cases even acquired constitutional status. There was a

remarkable similarity in the treatment of the concept in all these laws, including the norms applied in cases of non-fulfilment of function, such as farms which are not being operated at all, or which are poorly or indirectly managed.

## II

### Political and legal aspects of agrarian reform

Agrarian reform was implemented at the government's initiative, in accordance with legal instruments and in response to economic and social development projects and international conventions signed by the State. The reform was essentially the result of initiatives, decisions and actions undertaken by governments. Pressure by the peasants, although it occurred, was not a crucial factor. Agrarian reform in the 1960s and 1970s was preceded by political changes which helped it to become viable.

Since agrarian reform was a legal instrument of social change, institutionalized by the State, its orientation, from the point of view of what was reformed, how and for what purpose, depended in each case primarily on the political programme of the government in question, the negotiations or agreements between the various interest groups and the succession of these groups in the government over time.

All the agrarian reform laws or decrees established the requirements for receiving an allotment of land, with clear preference being given to peasants and workers who had farmed the expropriated estate.

In all the countries in which agrarian reform laws were applied, without exception, the obligations of the recipients were specified with regard to the terms and conditions of payment for the adjudicated lands. As a general rule, the land allotted to the peasants had to be paid for. A second element common to all the laws was the value charged for the lands, which in general represented the highest price paid by the State through the competent body as compensation in the case of expropriated land, or an amount

based on real estate register values in the case of public land. Terms were usually from 10 to 30 years; it was also common to have grace periods of three years on average, as well as equal and constant annual payments, with no interest except in cases of late payments.

In the agrarian reform processes studied, the land allocation models, because of the institutional and legal nature of the intervention, were designed at the technical/administrative and political levels. Before the reform process began, during the preparation and establishment of the legal instruments, new optional ways of organizing the reformed agriculture were defined. These were of three types: a) family agricultural units, allocated to heads of household, which allowed for family farming and advancement; b) agricultural units allocated in fee or in usufruct to peasant associations; and c) mixed units, allocating to each head of household a fairly small plot of land for family farming, or allocating larger plots of land suitable for market farming to the peasant association for group use and production.

In the cases studied, it was observed that when the agrarian reform institutions proceeded to the final allotment of land through the granting of titles, they took into account, firstly, the background, dimensions, resources, productive potential and population of each expropriated unit. In other words, the expropriated agrarian social structure was of enormous significance in the determination of each unit allocated to the peasants. New agrarian organizations were established on the basis of the traditional estate structures, the vast majority of which coincided, both in physical boundaries and number of bene-

ficiary families, with the situation prior to the reform.

In the agrarian reform of the 1960s and 1970s there were phases or times in which the managing institutions showed a clear preference for allocating land collectively, without dividing up the estates, and for distributing them in fee to the peasant associations. At the various inter-American meetings of agrarian reform executives, a number of reports were given on this predisposition to establish associative labour and production enterprises in the reformed area of agriculture. At the fourth such meeting,

organized in 1972 by the Inter-American Institute for Co-operation on Agriculture (IICA) (formerly the Inter-American Institute of Agricultural Sciences (IAIAS)) in Panama, it was held that "... these associative or community forms are the most appropriate way of ensuring the freedom and dignity of peasants, linking them to the national decision-making process and stimulating the establishment of a more authentic culture".<sup>4</sup> Similar recommendations were made at earlier meetings, so that an ideology favourable to labour and production associations in agriculture tended to be created.

### III

## Conceptual and empirical bases for the establishment of associative enterprises

Essentially, these enterprises are characterized by an identity of ownership between productive resources and labour, and by the fact that the peasants, as workers, participate to varying degrees and at varying levels in the management of the enterprise.

The definition which appears to be most in line with experience is that of J. Ortiz Egaz,<sup>5</sup> who defines the enterprise as an associative form of production arising out of agrarian reform, which produces primarily for the market by making sound use of the available resources. It is composed of peasants who share certain values, principles and motivations, accept given norms and adopt a system of common ownership and control of the factors of production, the use of part of the profits for the benefit of the community and the distribution of the surplus in proportion to the labour contributed by each member and his family.

J.E. Araujo<sup>6</sup> notes that, in the associative enterprise, "... the motivation for the activity is the advancement of the collective farm for the benefit of the community", and therefore "... the farmer who joins a community association must be basically prepared to change his way of life, renounce his independence as an owner or tenant and change his working methods".

Thus, the term "associative" is considered to be the most general term to refer to any enterprise in which the possession, use, management and distribution of the benefits are of a social nature, as opposed to the enterprise, which is private from the point of view of ownership and profit-taking, or the collective or public organization, the hallmark of which is the State's protagonistic role.

Certainly, various distinctions may be drawn within each category some of which recognize the communal nature of a specific form of associative enterprise, or the different levels at which the associative nature of the enterprise may manifest itself. The same may be said of State

<sup>4</sup>IICA (Inter-American Institute for Agricultural Sciences), *Fourth Inter-American Meeting of Agrarian Reform Executives*, Panama City, 14-20 May 1972, p. 32.

<sup>5</sup>J. Ortiz Egaz, "La empresa comunitaria como base para un reordenamiento territorial", *La empresa comunitaria: una sistemática reformista en el proceso agrario latinoamericano*, J.E. Araujo (comp.), San José, Costa Rica, IICA, 1975.

<sup>6</sup>J.E. Araujo (1974), *Una opción humanista del desarrollo rural de América*, serie Desarrollo institucional, No. 1, San José, Costa Rica, IICA (Instituto Interamericano de Ciencias Agrícolas).



participation, levels of ownership, private use of land and entrepreneurial services and benefits.

The experience of countries in which the situation and evolution of associative forms of agricultural production have been studied shows that the creation and organization of such associations were based, first of all, on operative aspects which facilitated the agrarian reform processes. Thus, replacement organizations were immediately established on the expropriated holdings to avoid any discontinuity in the production and administration of the productive units. The division and subdivision of the large holdings would have required a relatively long period of time to carry out the surveys and studies needed to delimit the family units. This in turn would have implied a complete interruption of the use of the land, infrastructure and capital, all of which presented serious technical problems and frequent ecological limitations which were difficult to overcome when the family units were being formed.

A second fundamental aspect of the establishment of associative forms was the desire to achieve a certain degree of participation of the beneficiaries immediately, to provide for both the continuity of production and the organization of a substitute structure.

In some cases, historical and cultural considerations prevailed, such as the experience accumulated by ethnic groups which for centuries had made use of the natural resources belonging to the communities. Another influence was the experience of some associative forms, promoted by institutions or peasant movements, which had acquired land communally and were carrying on their agricultural activities as a group. There were also ideological reasons for valuing associative forms over private forms as instruments of defence and peasant participation. However, perhaps the most decisive factors were technico-economic, since it was considered to be more efficient and less troublesome to keep the haciendas, plantations and ranches undivided, in order to sustain the production processes and take advantage of their organization so as not to change the infrastructure, productive techniques and use of capital.

These and other reasons, depending on the country (such as the quality of resources, fragility of ecosystems or importance of certain large-

scale productive activities oriented towards export trade), were combined so that the reform processes since the mid-1960s have been almost simultaneous and relatively similar. There is no doubt that these processes interacted and influenced each other.

In the countries studied, the associative forms were looked at from the standpoint of private property. The present study was centred on the analysis of "private" associative forms, integrated into market economies, although the State may have been involved in their origin and they may have maintained close ties with it. In order to deal with the topic of public enterprises in the context of a socialist order as part of a change in the nature of the State, it would have been necessary to design a project different from the one actually carried out.

Agrarian reform processes in Latin America are generally similar to each other in their legal procedures and evolution. Although there was not necessarily any coincidence of dates or periods in which they were developed, there was, as can be seen by reviewing each case, a sort of characteristic cycle common to all of them.

In the first stage, a serious debate took place on the "agrarian question", which resulted in a certain level of consensus on the inefficiency of the agricultural sector in relation to the socioeconomic system as a whole, and on the need to bring about changes. In this first phase, laws and policies for the subdivision and parcelling of some landed estates and the settlement of public lands were promulgated. However, the scope of these actions did not mitigate the social tension in the age-old agricultural lands.

The second phase usually began with a political change which made it possible to encourage structural reforms in agriculture. These reforms were characterized by the promulgation of land reform laws, which allowed for the expropriation of private land and the utilization of public land in order to provide the peasants with resources. The peasants' right to organize was recognized, and government institutions were created to enforce the new legal norms. It was believed that the advancement of the peasantry and its integration into national development would make it possible to modernize agriculture,

an essential prerequisite for sustained development based on industrialization. This second phase was sometimes rather long, and in some cases was interrupted and later resumed. Its end clearly coincided with the halting of expropriation measures; in other words, the reform phase extended from the establishment of the legal and institutional instruments to the termination of the decision to expropriate.

In the third phase, there was a delimitation of the reformed area of agriculture, which experienced various tensions that influenced its development. These tensions were primarily related with the government and its institutions and the inclusion of the reformed area within the market. In extreme cases, the expropriation process was interrupted by the takeover of the land in the reformed area by the former owners, with drastic consequences for the peasants. In other cases, the reformed area experienced changes in the new structures established in the reform phase as such, together with modifications in their operation, introduced by the government or derived from conflicts within the new social structure. In this phase, making room for peasant participation or movements was of major importance to the evolution of the progress made during the reform.

Bearing in mind the various stages in the agrarian reform process, it can be seen that the associative enterprise arose during the second phase as a strategic formula for meeting the dual objective of overcoming the difficulties presented by the family productive unit and taking

advantage of the resources and infrastructure of the expropriated units.

The most favourable climate for the formation of associative enterprises (other than the experience of El Salvador, which came later), was at the beginning of the 1960s and in the first half of the 1970s.

In the various countries, as has been indicated, the land reform process (understood here as the period of expropriation measures), was interrupted at some point, usually for political reasons, and then came to an end. However, in the third stage, that is, the post-reform phase, the outcome of the associative enterprises was very diverse, as will be seen below. The organization of associative enterprises occurred in two clearly defined periods. First there was a transitional stage, intended to prevent the loss of continuity of production in the expropriated unit and to allow the peasant beneficiaries to enjoy a period of adaptation between the expropriation and the final adjudication of property rights. In a number of countries, this entrepreneurial form was called "peasant settlement", a legal concept emanating from an agreement between the institution in charge of implementing the process and the peasant beneficiaries. The difference between countries lay in the degree of State involvement in the management of the productive unit, which was expressed in real terms by the level of peasant autonomy in decision-making. The second stage was the actual adjudication of the productive unit to the peasant and/or worker associations.

## IV

### Predominant features of the agricultural associative forms established in the countries studied

In order to detect and pinpoint similarities or common trends in the associative forms described, three parameters were selected which represented, *inter alia*, the characteristics considered most important in an associative concept of enterprises.

i) *Legal ownership of the land.* Three cases may occur. In the first, the State is the owner and

grants usufruct rights over the property to third parties; this case is typical of transitional forms. In the second case, the ownership is private and resides in the associative entity, represented by the enterprise, co-operative, group or other corporate body; in this case, the property is held in common or by the community. In the third case, property rights are individualized among the

members, that is, each member legally owns a parcel, which he contributes to the associative enterprise.

ii) *Management*. This is basically a question of identifying which body is responsible for decision-making. The first alternative is that the State manages everything, and the members of the association participate to a limited extent; in the second situation, the members manage the association through their representative bodies; in this case, the presence of the State may limit the autonomy of the members without actually replacing them.

iii) *Land exploitation*. This refers to the form of organization of labour in relation to the design of the associative unit. There are two basic types: in the first, the work is undertaken jointly for the entire holding, and in the second, each member (with his family) is responsible for a territorial subdivision of the enterprise, in which case the property rights may or may not be individualized.

A study of the associative units set up in each country shows that each of them presents innumerable special characteristics. This fact means that, within the range of Latin American agricultural associative enterprises, there is a certain degree of flexibility which is expressed in varied terms, and it is therefore difficult to categorize them according to common, homogeneous criteria.

An examination of the "typological" synthesis presented in table 1 shows that, in the first place, the associative enterprise predominates as an original formula which, although it contains many differentiating elements, can be distinguished from the classical State or parcel formulas. Secondly, together with associative enterprises, the reform ideology generally advocated the adjudication of land in fee, and hence there are few examples of associative organizations on public lands.

As the ownership of the land was turned over to the peasants, there was also a tendency towards the belief that management was their responsibility, exercised through their assemblies and other decision-making bodies. In general, farming was conceived and carried out as a group activity, following the decision not to subdivide the expropriated properties. In certain cases, families had limited resources to produce some commodities to feed themselves, but in general, the predominant idea was that of the joint farming of each expropriated unit. This common denominator is not unlike the concept behind the reform movement itself since the 1960s, which was reinforced by many meetings at the political and technical level held under the auspices of international organizations, and by advisory assistance, co-operation and exchange among the countries.

## V

### Evolution of associative forms of production

At the height of the period when associative units were being formed, there were approximately 12 135 such enterprises in the countries studied.<sup>7</sup> This high point occurred at different times in each country, varying between 1973 in Chile and 1982 in El Salvador. According to the available figures for 1984, 1985 and 1986, the

number of associative enterprises appears to have decreased to 5 350 units (table 2). This decline has continued to the present time. In this reduction of approximately 7 000 enterprises over approximately 12 years, the evolution of certain agrarian reform processes was a determining factor.

Two main trends can be seen in the evolution of associative enterprises. The first was the drastic dissolution, during relatively brief periods, of a large number of associative enterprises, and the second was the consolidation of some

<sup>7</sup>This estimated figure merely seeks to illustrate the dimension of the agrarian reform—associative enterprise phenomenon and does not reveal the major differences, for example, in the average size of the enterprises organized in each country.

associative enterprises which had been having difficulties, and the modification of their management procedures and internal organization. In a comparison of the two trends, the first clearly predominated, especially in countries

where insoluble institutional problems had arisen.

How long each enterprise lasted varied considerably, depending on the experience of each country. In some, only a small number of units

Table 1

## LAND REFORM ENTERPRISES

Country/enterprise	Land ownership			Management		Land exploitation	
	State	Associa- tive	Indivi- dual	State	Associa- tive	Communi- ty	Indivi- dual
Colombia							
Community enterprise		x		x	x		
Community groups		x			x	x	
Chile							
Agrarian reform agricultural company <sup>a</sup>	x				x	x	
Agrarian reform co-operative							
- Co-operative of beneficiaries		x	x		x	x	x
- Co-operative as beneficiary		x			x	x	
- Mixed co-operative		x	x		x	x	x
Agrarian reform centre <sup>a</sup>	x				x	x	
Honduras							
Settlements <sup>a</sup>	x				x	x	
Co-operatives					x	x	
Associative enterprises		x			x	x	
Panamá							
Peasant settlement <sup>a</sup>	x		x			x	
Agrarian board							
Type A			x		x	x	
Type B		x	x		x	x	
Type C		x			x	x	
Peru							
Agrarian workers' co-operative (CATS)		x			x	x	
- Sectoral co-operatives		x			x	x	
- Mixed co-operatives		x			x	x	x
- Completely subdivided co-operatives	x			x	x	x	
- Users' agrarian co-operative (CAUS)			x		x	x	x
Public interest agricultural corporations (SAIS)							
- Category one SAIS		x			x	x	
- Category two SAIS		x			x	x	x
Community owned rural enterprises (EPS) <sup>b</sup>		x			x		
Dominican Republic							
Collective settlement	x		x	x		x	
Associate settlement		x		x	x		x

Source: Prepared by the Joint ECLAC/FAO Agriculture Division, on the basis of case studies.

<sup>a</sup>Temporary forms of landholding.

<sup>b</sup>The EPS do not strictly fit into this category, since they belong to the community; however, they are in fact similar to associative enterprises.

Table 2  
EVOLUTION OF LEGALLY CONSTITUTED AGRARIAN REFORM  
ASSOCIATIVE ENTERPRISES

Country	Year	Maximum			Year	Current		
		Units (number)	Families (number)	Land area (hectares)		Units (number)	Families (number)	Land area (hectares)
Colombia	1976	1 349	14 093	278 600	1985	629	3 634	107 463
Chile	1973	5 809	92 165	10 121 603	1986	10	473	278 500
Ecuador <sup>a</sup>	1973	1 267	40 544	373 765	1984	802	25 664	236 590
Honduras	1977	1 088	31 168	174 689	1985	1 941	48 129	299 413
Panama	1978	268	7 326	96 572	1986	267	5 795	71 310
Peru	1979	1 946	322 951	7 937 160	1985	1 163	266 398	6 068 830
El Salvador <sup>b</sup>	1982	340	31 183	250 000	1986	340 <sup>c</sup>	27 174	210 783
Dominican Republic <sup>d</sup>	1978	68	7 010	23 946	1984	198	19 200	72 620

Source: Prepared by the Joint ECLAC/FAO Agriculture Division, on the basis of case studies of each country.

<sup>a</sup> Corresponds to agrarian reform communes and co-operatives constituted and legalized in the periods 1964-1973 and 1974-1984. (Source: Ministry of Agriculture and Livestock, Department of Peasant Organizations).

<sup>b</sup> Ministry of Agriculture and Livestock, Sixth Agrarian Reform Programme Assessment, San Salvador, 1986.

<sup>c</sup> Twenty-nine of these co-operatives are not in operation, since they are located in a war zone.

<sup>d</sup> Collective settlements became associative enterprises in March 1985. Since this brought an end to the joint farming of land, an internal subdivision process was begun.

were dissolved, while in others the phenomenon was widespread. There was not only a sharp decline in the number of enterprises but also in the number of beneficiary families and the land surface occupied (table 2).

In Chile, which had more enterprises than any other country on the continent, almost no associative sectors originating in the agrarian reform are still in existence. Similar but less intense processes occurred in Colombia and Peru, with significant differences in respect of their importance in their own context.

In the other countries studied, this trend was not observed. In Panama, the number of enterprises was stable, although there was a decline in the number of members and amount of land involved, because of the various ways in which the members could withdraw; in Honduras, meanwhile, there was a tendency for the associative sector to increase, and it nearly doubled between the two periods being compared (table 2). In the Dominican Republic, the main concern of the agrarian process was to seek formulas for making the transition from State enterprises to associative enterprises, with the growing participation of peasants in their management. However, this aim was not achieved, and in 1985 rules were established for subdivid-

ing the land on the basis of a family farming and production strategy. The associative aspect was limited to the provision of inputs, the obtaining of credits and the marketing of the product.

The principal factors explaining the predominant mechanisms in the various above-mentioned trends are both outside and inside the enterprises. The former are beyond the direct control of the enterprises, and in many cases have a greater impact than the latter. In general, there is a varied range of outside elements, but all are related in some way with both the reform policy and the economic policy, or with the policy specifically geared to the agrarian sector. These latter factors may be categorized in general as credit policies and interest rates, prices and exchange rates, marketing and technical assistance, *inter alia*, all of which, in brief, had an impact on the definition of the context in which the associative enterprise operated.

Internal factors, included, firstly, traditional elements contributed by the members, as well as the subcultures which were integrated into the collective, especially links with the long-standing traditional order and ethnic groups; geographical and ecological factors which constituted the environment of the enterprise; the social relationships implicit in the new agrarian

structures; and, lastly, the management and decision-making bodies relating to the use of resources, production, employment and remuneration of the factors.

It must be kept in mind that it was not a matter of linear causality, but rather a very complex phenomenon which was the reason for not making any sharp distinctions in analysing the basic causes of the success or failure of the associative experience, since it can be seen that a constellation of factors influenced the predominance of a particular trend. Moreover, some factors, which in a given context could be considered as being favourable to the consolidation of an enterprise, acted as factors in its dissolution in other circumstances. An eloquent example is that of the quality of productive resources, which in some high-potential cases could encourage the subdivision and sale of land, while in others could be conducive to a high level of saving and investment, and the consolidation of a highly efficient enterprise.

Among other aspects considered to be crucial in the consolidation of associative enterprises were historical and cultural factors which predisposed the people to use resources and labour communally. Another positive influence in this direction was the existence of traditional communal institutions related to the municipalities or to certain ethnic groups. In the indigenous communities, the traditional communal culture and certainly ethnic identity were propitious. In other countries, important factors included the previous experience of the members in work-related discipline, trade union organization, use of modern techniques, team-work on specialized production; the application of lessons learned from the struggle to acquire land, which resulted in joint action to obtain a better economic yield and greater autonomy; the formation of a collective awareness; and, lastly, the support of religious or political institutions.

Among the factors which led to the individualization, parcelling and dissolution of enterprises were the following: the heterogeneity of the members with regard to schooling, productive experience and traditions; the forced creation of enterprises for the purpose of allotting land to them; the poor choice of beneficiaries who had not worked on the land and who had engaged in activities other than farming; the

persistence of some features of dependency characteristic of the former structure of the expropriated haciendas or plantations; direct or indirect State pressure in the establishment of the associative enterprises; hence these were not formed by the decision of their members but because the latter were forced to belong to an association which was not convened and chosen by their own group; the perception of the enterprise as a forced way of life and not as an achievement derived from greater social awareness; the underemployment of the labour force because no studies had been made on the number of members appropriate to the real potential of the adjudicated resources, with the resulting excess labour force; certain limitations as to the quantity and quality of the land allotted; the initial decapitalization of the adjudicated lands; and, lastly, the accumulation of banking requirements in order for the beneficiaries of the land reform to obtain credits.

In these cases, the formation of mixed enterprises, which recognized areas for family labour and production in addition to the associative area, turned out to be more realistic and therefore more stable.

Most of the regional associative enterprises for labour and production were formed through the intervention of the State, either by land reform processes or, in general, by the allocation of land to the peasants, which meant that they were not always formed as a result of an express decision of their members. Thus, the principle of voluntary membership and withdrawal which normally applies in the establishment of social organizations did not apply. If a head of household rejected the choice offered to him, he might become unemployed or might have to work for another as a result of the land reform process. Thus, in the forming of an associative enterprise, the degree of freedom was reduced.

A selection process which led to a greater heterogeneity among members tended to result in difficulties with respect to internal cohesion and discipline, and could at the same time lead to the withdrawal of a number of members, as occurred in Colombia, the Dominican Republic, El Salvador and Panama.

In the new labour relations and the new way of defining the labour process in the associative enterprise, a series of internal conflicts arose in

the breaking down of the familiar logic of the organization of labour which predominated on the hacienda. This phenomenon constantly undermined the stability of the enterprises. The lack of activities for incorporating the members of the family into the co-operative was a negative factor in this type of organization. Since they were unaware of the activities carried out by the co-operative, the other members of the family were not interested in supporting its programmes. Thus, what probably happened is that the organization gradually came to be seen as a separate entity.

The members' perception of the limited quantity and quality of the land was another factor which caused some doubt as to the real possibilities of achieving progress and economic stability. This was an element of conflict among the members because of the need to adjust their number to the real potential of the resources, and many preferred the individualization of property to the option of remaining outside the system.

Moreover, the relative abundance of resources held by the associative enterprises in comparison with the existing situation in the *minifundio* areas resulted in pressure on them to provide jobs.

Members of enterprises located in regions where the value of land was growing rapidly might hope to become richer and might even endorse the subdivision of land in order to sell their parcels. In these areas, the land market was more active and exerted pressure in favour of subdivision.

Borja<sup>8</sup> holds that, in general, possibilities for consolidating the co-operative production units were greater if the unit had the capacity to strengthen individual holdings. On the contrary, if the farm or collective holding competed for time or resources which should have been devoted to individual holdings, the trend towards fragmentation of the collective enterprises was consolidated.

<sup>8</sup>Jaime Borja (consultant), *Formas asociativas de tenencia y producción en reforma agraria y colonización en Ecuador*, paper submitted at the International Round Table on Organizational Structures and Landholding in Agrarian Reform and Colonization. Mexico City, 11-15 November 1985, organized by the FAO Regional Office for Latin America and the Caribbean.

One factor which held back the subdivision process was the use of the collective as a source of funds for paying the debt on the land. Once this function had been fulfilled, the trend towards fragmentation was further confirmed.

In general, the initial decapitalization, which called into question the viability of the associative enterprise, appears to have been more of a problem in cases in which the sub-stratum was based on the hacienda rather than on the plantation. Early decapitalization of the adjudicated holdings and peasant associations forced the governments to make an extra effort to finance the investment and operating costs of the new enterprises. The amounts committed for these purposes at the peak of the reform periods, in which political support was a decisive factor, were considerable in the cases of Chile, Ecuador, Honduras, Panama and Peru. The enterprises sometimes even received capital for plantings, livestock, machinery, equipment and some infrastructure. This investment effort, although it was insufficient and did not reach all the enterprises, resulted in a considerable increase in productivity on the farms which had been abandoned at the time of the adjudication and which had a high potential in natural resources. This was an essential factor in the stability and consolidation of the new enterprises.

Government support in certain periods was very clearly reflected in the earmarkings of fiscal budgets and to some extent in the redistribution of credit. However, in this latter respect, there appears to have been a consensus with regard to its insufficiency and the difficulty of doing business with associative enterprises.

It should be noted that the members all had the right to participate in the administration of the enterprises and could vote and be elected to leadership posts. This characteristic was important, since it gave the peasants the opportunity to take part to a greater extent in the farming operation. However, certain problems arose, such as the lack of knowledge on the part of most workers, which resulted in management failures. In some cases, the younger workers were better prepared, and therefore more capable of taking care of the administrative aspects as such. However, because they were less experienced and lower in the hierarchy, conflicts usually arose with the older, higher-level workers, frequently

resulting in authority-related problems and internal disruption.

There also tended to be a more or less permanent differentiation of the members who exercised leadership functions and who, for reasons of bureaucratization, did not have to do daily manual work. This was combined with patronage within the enterprise, which meant that the easiest tasks were assigned to groups with close ties to the current administration. These situations created conditions conducive to the dissolution of the associative forms.

A number of the problems which afflicted co-operatives and limited their development were related to the lack of training of their members in aspects relating to the management of the enterprise. On repeated occasions, government action encouraged the above-mentioned bureaucratization, since it promoted the training of a management élite. On the other hand, the bureaucracy did not actually imply a disregard of democratic procedures, as long as management decisions were endorsed by prior consultations.

García<sup>9</sup> noted that, in the Chilean experience, the peasants perceived the productive process as "not theirs", or external, which is understandable in that they had been employed by others all their lives and that there was a certain trend, which should not be underestimated, to perceive the State as a substitute for the former boss. This appears to reinforce the tendency to consider the interests of production as being irrelevant, or even antithetical to the peasants themselves.

Paying them an automatic salary advance tended to bring about the same results, since it usually corresponded to the minimum wage. This generated a tendency towards consumption rather than savings and investment, and favoured an increase in investment in the individual parcel at the expense of the operation of the enterprise as a whole. The automatic advance was paid irrespective of the amount of work accomplished and the number of hours worked, and some peasants therefore looked at production as having "nothing to do with them".

In *Colombia*, González<sup>10</sup> noted that the salary advance led to a passive attitude; "... if it approached the amount of a normal wage, guaranteeing an income regardless of the results, a passive attitude resulted. The advance is a quantity of product or money received by the members as an advance on the final product. From the personal psychology point of view, it fulfils an important role, since it is this portion of income which the members experience most directly, and it therefore helps give them a sense of well-being and security".

If one adds to the income earned the services provided by the enterprise and the "subsistence farming produce", which "represents a substantial part of the daily food intake and is produced by each member on a small plot assigned to him", it will be understood why the "sharing in surpluses or profits" resulting from shared work is not a sufficiently strong motivating factor to ensure active participation in the enterprise.

The external situation, particularly those aspects related to the evolution of the markets for products and the financial markets, may seriously restrict the operations of the enterprises. Unfortunately, owing to their excessive dependence on public institutions, sufficient importance is not attached to such aspects. While a number of associative enterprises dedicated exclusively to a single product may possess the necessary installations for its processing and storage, these are likely to show negative financial balances should prices remain depressed over a long period. In such circumstances, they have recourse to credit sometimes at a real interest rate which in the long run prolongs the life of the enterprise without resolving its underlying problems. They may seek investment credits to undertake the conversion of the enterprise into another product, which will provide them with a medium-term solution. In other cases, the final result has been the liquidation and sale of land and capital, principally to pay off debts, without the members being able to retain a part of the land or of the capital which would enable them to embark upon some other activity.

<sup>9</sup>P. García, "Reforma agraria y las formas asociativas campesinas en Chile", study prepared by the Joint ECLAC/FAO Agriculture Division, Santiago, Chile, April 1986, *mimeo*.

<sup>10</sup>M. González (consultant), *Origen y evolución de las formas asociativas campesinas de producción y trabajo en Colombia* (LC/L.434), Santiago, Chile, ECLAC, November 1987.



## VI

### Some considerations and recommendations

An examination reveals that the set of situations and factors that affect the associative agrarian structures is very complex. Without attempting to go over questions that have already been dealt with, by way of test, a number of thoughts are presented on the process known as associative enterprise agrarian reform, taking special account of those considerations that may be useful to persons who are in a position to influence or to make decisions in similar processes that may be initiated in the future or in processes recently embarked upon.

It may be supposed that the degree to which the associative experience has been consolidated has depended on the scope and vigour of the agrarian reform programme. In a marginal process, results might be expected that are different from more profound and far-reaching agrarian changes. If, by reason of its size, a reformed area organized into associative structures has had significant social, economic and political weight, one may assume that, based on its own strength and negotiating capacity, it would consolidate itself more easily. Experience, however, does not seem to bear out this assumption. The figures cited reveal that the fate of the enterprises is not directly or exclusively related to the scope of the reform. Both in the marginal processes and in those of broader scope similar trends may be observed, either towards the consolidation or towards the disintegration of the associative structures.

The political dimension represented by the State is of the utmost importance to the development and fate of the reformed area. In view of the State's role as a protagonist in the processes of reform, national and sectoral political stability is a key element in the experience that has been accumulated in the establishment and development of associative work and production enterprises in agriculture, as well as in formulating reform strategies by governments that wish to promote new initiatives of this kind.

In the early stages of the institutional processes of agrarian reform, it tends to be forgotten that alternation in power usually produces

changes in public policies, which are sometimes in conflict with the policies pursued during the previous period. Generally speaking, it may be said that the process of agrarian reform has historically been of limited duration or validity and that on numerous occasions it has been interrupted on account of changes in the political sphere. Consequently, it is a process which may be identified with clearly defined periods. Associative enterprise structures with limited autonomy consequently proved to be very inadequate as regards their functioning and their heavy dependence on public bodies, and it is therefore strongly recommended that a certain degree of social consensus should be achieved on the type of structures which one wishes to promote.

The relative autonomy of the associative enterprises, over and above their relationship to the State, lies in their inclusion in the global economic system and particularly in the market. If, from the time of their establishment, they take no account of market conditions and rely for their survival on special treatment received from the public apparatus or on official subsidies, they will find it difficult to achieve levels of profitability which guarantee them a certain degree of autonomy and stability when the official aid ceases.

On the other hand, the rigidities that derive from State tutelage end up by blocking those changes that are necessary in the behaviour of members or of the directors, or by preventing technological and administrative advances from being applied. Responsibility for the deficiencies of the associative enterprises is frequently attributed to the State institutions responsible for agrarian reform and certain related activities, such as training, the promotion of organizations, financing and credit, technical assistance, and marketing. The question should therefore be asked whether we are not dealing with an agrarian social structure which requires for its efficient functioning an entire public apparatus and, where the latter is weak or not sufficiently equipped, the associative enterprises no longer have any chance of succeeding. In other words,

what happens to the enterprises when the State provides no assistance or decides to reduce its assistance? For all these reasons, it is important to consider the weakness or instability of government agrarian reform policies as a decisive factor in the very concept of the functioning of the substitutive agrarian structures and their relationship to the political and social environment.

Another aspect which deserves comment is the institutional nature of the process of reform, since many of the deficiencies of this process result from the excessive rigidity and centralization of the institutional system which organized and directed it. It would therefore be necessary to reformulate the organization and functioning of that system in the event of a reform in order to increase the level of decentralization of its operations and, moreover, to conceive of it as an interactive complex based on broader participation. This is of special significance in the areas of training and education.

An issue of great importance to members is the ownership of land. The absence of a clearly defined position on this question leads to conflicts of all kinds, which intensify when they acquire ideological overtones. Generally speaking, agricultural workers and rural dwellers attach great value to ownership of land since for them this represents a right and an aspiration. The transition from the expropriation to the awarding of land is important since the sooner the land is transferred with clear title the sooner the atmosphere of uncertainty, which is sometimes created by groups that are opposed to reform, will be dispelled. Moreover, in view of the ups and downs in the political sphere, the consolidation of the change in the ownership of land ensures that in periods of counter-reform the expropriations are not nullified on the grounds that the transfer of land had not yet been legally completed.

The above considerations have a direct bearing on the way in which associative enterprises are constituted and organized and particularly on the participation of rural dwellers and agricultural workers at various levels of decision-making, from the micro-social level, that is to say, at the level of each group of members, up to the macro-social level. The path of participation, ranging from situations of relative marginalization or

submission to other situations which require an effective role of protagonist, is not an easy transition for the rural dweller to make, particularly if the periods of change are relatively short. The temptation to verticalism and paternalism in these circumstances seems irresistible.

Of course, in the design of the substitutive structures, whether these are transitional or definitive, conceptual aspects may be taken into account but the approach adopted should always be based on the reality of the situation since the structures should be designed for specific groups, with a history, culture and a centuries-old experience in organization and in the social relations that characterize the traditional agrarian order. Very few research programmes or studies exist on the limitations imposed by the experience that has been accumulated on farms, plantations or cattle ranches, both on the organization of a substitutive structure in which there is no longer any room for the presence of a boss, and on their mechanisms of administration and control. In the absence of such analyses, the most practical way of approaching the question is through participatory research, in which the protagonists in the process express themselves according to their origin and their peculiar characteristics. A decisive element for the successful restructuring of expropriated or public lands is the explicit recognition that action is being taken on behalf of a complex socio-cultural sub-stratum of persons with varying concerns and dynamics. In some cases, this involves a clear survival strategy, which is characteristic of the systems of servitude under which families are paid in the form of land on the large estates from which they obtain their sustenance. In other cases, employer/employee relationships are mainly based on the payment of wages with a high participation rate of wage-earning agricultural workers.

One general observation which may be made after a review of the experience of associative and agrarian reform structures is that the agrarian sector in Latin America exhibits a degree of heterogeneity that is greater than that upon which these projects of reform have been premised. Consequently, and in view of the likelihood of future actions, the range of proposed options should be expanded. In this regard, the success of the new social structures of production

depends in some measure on the extent to which each particular situation is reconciled to the prevailing circumstances. In the cases observed, a tendency has been noted on the part of the peasants or wage-earners to reproduce, to a certain extent, the pattern of relationships that existed in the agrarian structure prior to the reform. In capital-intensive units and particularly in the agro-industrial complexes which employ wage-earners, the associative structure more closely resembles the pre-reform structure. In those units which are organized along plantation type or worker-employer type lines and which are devoted to the cultivation of food crops, with payment in the form of land on which the family pursues its peasant strategy, mixed structures tend to be the norm. In such structures the family plot is a traditional requirement and the communal area of production as such provides support for the family strategy and vice versa. Consequently, the associative enterprise is put to the test as a social structure that generates new relationships and requires guidance and a system of decision-making and supervision. In this respect, the tensions inherited from estate paternalism or from the verticalism that is characteristic of the plantation, or the conflicts that arise on account of the heterogeneous origin of the members of the collectivity, or the needs that have been met or that have remained unsatisfied according to the degree to which the structure has been adapted to the cultural traditions of the collectivity, may be important for the development of the associative structures. Consequently, the successful elaboration of the productive structure is the result of considering these aspects as central elements of the diagnostic study.

The establishment of an association requires consensus among its beneficiaries and this consensus is easier to achieve when some form of social relationship exists among the members. Social relationships help to reduce the level of internal conflict since currently, as experience shows, while rural dwellers share the common root of their work on the land, there are significant differences among them which essentially reflect the trajectories of the different groups. The trajectory of a group, in turn, determines a set of acquired skills and, consequently, the type and level of the aspirations of the members of

that group. In some cases these aspirations may tend preferably towards ownership of land and, in other cases, towards ensuring control over the source of employment and income.

Directly related to respect for the wishes of agricultural and peasant workers and, by the same token, for their autonomy, is the consideration of their opinion on the forms of organizing and awarding land, that is to say, the choice between different agrarian social structures. In order for this possibility of choice to function in practice, the persons in question must necessarily be afforded the opportunity to consider the various known structural options, instead of imposing models that have been elaborated without their knowledge or participation.<sup>11</sup>

On numerous occasions the associative structure has been adopted as a transitional measure since the land in question was able to continue to produce without interruption, taking advantage of the infrastructure that existed at the time of the expropriation. Moreover, it encourages peasants to organize themselves better and promotes a smoother relationship with external agencies, whether these are public bodies or the market. Work and production

<sup>11</sup> José María Caballero, "El fracaso del modelo agrario del régimen militar", *Realidad del campo peruano después de la reforma agraria: Diez ensayos críticos*, Perú actual series, Centro de Investigación y Capacitación (CIC), Lima, ITAL Publishers, Peru, S.A., 1980. Following the process of reform in Peru, the author affirms that if different forms of awarding of land had been considered better results would have been obtained. Caballero recommends that agricultural development should be based on medium-sized landowners, small production co-operatives (from 10 to 30 workers) small landowners possessing viable units of between five and 30 irrigated hectares of land, and a small number of State enterprises, particularly in the largest and most modern plantations on the coast and on the most modern cattle raising complexes in the "serrano".

S. Barraclough and J.A. Fernández, *Diagnóstico de la reforma agraria chilena*, Mexico City, Siglo Veintiuno Editores, 1974, p. 207. The authors claim that it would be catastrophic to adopt for the country as a whole a single, rigid formula to govern the organization of the reformed units, simply because there are too many types of farms, levels of technology, types of marketing needs, local cultural traditions and levels of political consciousness. "What is required is not a rigid and detailed organizational formula, but rather a simple set of principles that can be adapted to any combination of local conditions in the reformed sector. We believe that these principles could be summarized under the heads: peasant participation, economic rationalization and social control of the 'economic surplus'. In view of these considerations, it matters little whether the agricultural units are called settlements, CERAS, *moshavs*, *kibbutz*, community farms, *kolhozes*, co-operatives, communal properties or self-managing enterprises".

under associative structures have often enabled peasants to protect their land from the attempts to wrest it away that are inherent in processes of all agrarian reform, particularly in countries that are relatively less developed in which land is the principal source of income. It has also made it possible to pay for the land with the income earned from communal production. Frequently, after the land has been paid for and certain investment credits repaid, the land is divided up and the organizational structure maintained as a first-level association in order to ensure that each member is adequately provided with services.

The participation of all members within each agricultural enterprise requires that the work and the administration be organized in such a way as to afford all members of the unit equal opportunities to democratically adopt decisions on their own work as well as on the general management of the enterprise. There is also

need for effective participation beyond the limits of the reformed units, in areas as sensitive as obtaining loans, the marketing of products and the improvement of services.

In order to ensure that members do not remain indifferent and that relationships of submission, which are characteristic of worker-employer systems, are not recreated, it is essential to raise the level of education and training of members and to pay particular attention to those who are in situations of disadvantage, such as the illiterate, or those who lack knowledge of arithmetical operations or elementary technical knowledge. Because of the differing educational levels, a certain level of dependency by the majority on the more qualified members tends to develop, which may even alter the traditionally accepted status and undermine the solidarity of the group. Consequently, the systems of training and education of adults, both men and women, have been extremely important in the establishment of associative enterprises and have also helped to surmount the profound differences that exist on account of origin, age and experience.

The progress of associative enterprises towards increasingly greater autonomy depends on the type of support they receive from public institutions and on the direction which they are given. Legal, technical, financial, entrepreneurial and marketing assistance may help to develop a more mature and independent behaviour on the part of the membership or, on the contrary, may create ties of dependency which tend to extend themselves in time and to consolidate situations of symbiosis which do not promote responsible participation. Special attention deserves to be paid to certain kinds of financial interventions the nature of which is not properly clarified and which, because of their ambiguity, create confusion between certain kinds of credits and subsidies. Co-operation or technical/administrative assistance is also often confused with interventions in which the responsibility for management is progressively taken away from the assembly of members. Another area of concern is the marketing of crops through State enterprises, if this causes the co-operatives or associative enterprises to ignore market prices and to increasingly rely on State agencies to sell their production at subsidized prices.

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Francisco E. Teófilo Filho and others, *A reforma agrária no Brasil e o desenvolvimento de formas associativas de posse e uso da terra*, Fortaleza, Brazil, Economic Commission for Latin America and the Caribbean (ECLAC), December 1986. The author indicates that in the National Agrarian Reform Plan formulated in 1986 for Brazil a number of quite flexible criteria were established on the replacement agrarian structures. In this regard, there was a general rejection of a preconceived model of associative enterprises, and it was generally agreed that neither the organization nor participation of peasants should respond to predetermined frameworks. He proposes the establishment of enterprises whose principal features are the result of a process of elaboration by the peasants themselves. The initial point of this process would have to be the concrete reality of the peasants because they have very diverse, old and recent organizational experience, which has enabled them to overcome setbacks. To ignore or deny such experience would mean to propose associative forms that are divorced from the reality of the producers and, consequently, artificial and formal, and lacking in dynamism and authenticity. Using this approach to the productive organizations, the National Agrarian Reform Plan outlines three alternative forms of enterprise for the agrarian reform. The first would provide access to land through family ownership, with the absorption of the labour capacity of all members. This first option is thought to be suited to areas with consolidated peasant economies in which the association would help planning, employment and marketing of the products from the family farm.

The second model proposed in the Plan provides for access to the land through joint ownership, whereby the work can be undertaken on a communal basis or in family units. It is felt that this formula would respond to the need to establish small agroindustries. Finally, a model has been designed in which access to land can be provided through the awarding of a definitive title or granting of a real right of use, that is to say, a part as personal property or property for family and the other part as personal property or property for communal use.

In order to speed up the formal establishment and consolidation of associative enterprises, to promote greater autonomy for them and to make their operation more expeditious, it is essential that they be granted legal recognition through a quick process that would enable them to obtain their legal personality. While reforms clearly need to be undertaken rapidly, this speed should not be limited merely to the phase of expropriation, but should also apply to other aspects leading to the award of land and to the legal recognition of the social structures. If this is not done, the process remains vulnerable to counter-reform movements which can adversely affect the new peasant associations that have not yet been juridically consolidated.

The functioning of the associative enterprises is subject to varying tensions that arise from the exercise of authority by those who have been elected to management positions, as well as from the differences of opinion concerning the establishment of internal norms and regulations and, most especially, the programming of production and land use, the distribution of tasks, the determination of remunerations or advances for work, the distribution of surpluses where applicable, etc. In this type of situation it has not been usual to establish mechanisms to overcome the serious internal conflicts. Tensions therefore tend to build up, which undermine the constructive and community-minded atmosphere that is created in the early phases of the establishment of the enterprises. This omission may be remedied by recourse to institutional systems of arbitration which intervene at the request of the parties involved. Although no information is available on this matter, on a number of occasions, after acquiring a certain legitimacy, second-grade or third-grade organizations have had recourse to informal arbitration mechanisms. It would seem advisable to establish, early

in the process of reform, an institutionalized system that would help to deal with tensions and conflicts.

Consideration of the agro-ecological aspects should not be overlooked in the process of structuring the enterprises. In ecosystems that are fragile or which have serious limitations in obtaining environmentally stable crops, such as high plateau regions or cold steppes with foraging pastures that are easily depleted through overpasturing and with seasonal alternation in the use of the pastures, a management system is clearly necessary and the associative structure would seem to be the most suitable. The same applies to the agriculture, forestry and pasturing experience in tree-covered zones, in which the trees also serve as soil protection. In such cases, for technical reasons and reasons that have to do with the organization of labour, it is recommended that associative structures be adopted. However, in semi-arid cultivable land (rain-fed or seasonal crops) in which cereals are cultivated, the associative structures tend increasingly to promote parcelization and the spread of peasant involvement, in other words, family production strategies.

In areas with fertile land that is suitable for permanent crops, which generally require large amounts of capital and are export-oriented, or in high fertility areas dedicated to the raising of cattle for milk production, the pure forms of association tend to be better suited and, consequently, to be more stable.

In contrast with the previous situations, on land that is more fertile and with fewer limitations on their use for food crops, mixed forms, i.e., structures in which communal production areas are combined with small plots for family use, usually provide opportunities for greater complementarity which increase the stability of the associative enterprise.



## The capital goods industry: situation and challenges

*Jorge Beckel\**

This article attempts to provide an overview of the situation of the production and supply of capital goods in Latin America, the trends over the last few years and the challenges facing the reactivation, restructuring and expansion of this industry during the 1990s. The capital goods industry has often been considered, in the theory and practice of development, as a strategic industry, owing to its links with the other productive sectors and its function in the process of technological innovation. Because of the crisis affecting the economies of Latin America, which has been expressed in violent inflationary processes, in a marked decline of investment in most of the region, and in a contraction of the demand for capital goods, the industry that produces these goods faces serious difficulties and in some countries its very survival is threatened. There are also structural and long-term obstacles to development of an industrial activity which is intrinsically complex because of its markedly technological character, which makes it necessary to conceive of development with a long-range view. This article is based on the results of a regional co-operation project which ECLAC carried out together with UNIDO under the auspices of UNDP.

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## Introduction

The manufacture of capital goods in Latin America and the Caribbean has advanced greatly in the last 40 years. The following accomplishments bear witness to this fact: hydraulic turbines that are among the largest in the world, complete industrial plants for the industries of steel, cement, pulp and paper, numerically controlled machine-tools and heavy transport equipment. The small countries of the region have also begun to manufacture capital goods of a certain complexity, such as hydrogenerator components, installations for the petroleum industry and spare parts for mining equipment.

On the one hand, this progress occurred spontaneously, the outcome of the industrialization process that took place in the region during the period under examination here. But capital goods production has also been shaped by the economic and development policies of the Latin American countries. These policies did not always consider the development of a local production of capital goods as part of their objectives; indeed, at times they favoured their importation. On the other hand, in certain countries and at certain moments, the authorities promoted the development of capital goods production, recognizing the strategic function that the industry plays and considering that the development attained was insufficient or below what was desired.

At the present time, the situation of the capital goods industry in the region is very much influenced by the acute crisis that affected Latin America and the Caribbean during the 1980s. The characteristic phenomenon of that period was the massive transfer abroad of financial resources and a sharp decline in investments, which fell by an average of 20% between 1980 and 1989.<sup>1</sup> Most of the countries experienced virulent inflationary processes, stagnation or recession, as well as high fiscal deficits. This evolution seriously affected the capital goods industry, leading to high indexes of idle capacity

<sup>1</sup>See ECLAC (1989b). Machinery and equipment declined an average of some 25% for a group of 15 Latin American countries between 1980 and 1988.

in the productive plants, serious financial problems in the enterprises and some attempts at industrial restructuring.

The recovery of the capital goods industry depends basically on the Latin American countries being able to re-establish their conditions of economic growth. This would mean, among other things, boosting the level of productive investment —the factor that determines domestic demand for these goods— and therefore also sustained economic growth. Apart from this general or macroeconomic question, the countries must undertake certain specific tasks for the restructuring, consolidation and development of the capital goods industry. These include the modernizing of the productive apparatus, the broadening of the productive base in part of the region, and the strengthening of the negotiating capacity of local enterprises.

In the developed world, the capital goods industry went through an intensive process of modernization and restructuring during the 1980s.<sup>2</sup> Latin American industry, on the contrary, did not, in general, participate in this trend. Resources for investment were lacking, and the sombre economic perspectives caused the suspension of many industrial projects. Consequently, part of the productive apparatus in the region faces the danger of soon becoming technologically obsolete. The fact that the region's labour and engineering costs are lower than those in the developed world compensates only partially for the erosion of its international competitiveness, and does not constitute a permanent advantage. In the capital goods industry, modernization and restructuring on a world level are derived to a large extent from the application of a generation of new technologies, based especially on micro-electronics and informatics. Typical examples are computerized numerically-controlled machine-tools and the use of microprocessors and microsensors in the automatic control of manufacturing processes. Technological innovation, which also includes the management of production and product and project engineering, frequently consists of using computers —among the different kinds, the personal

computer, the microcomputer and informatic networks. Notable among the new technologies are new materials, which often determine innovations in manufacturing processes, apart from changing the characteristics of products. Moreover, technological innovation is accompanied by conceptual changes in the organization of enterprises.

Besides being modernized, the capital goods industry is being restructured on a continental scale. The avalanche of mergers and acquisitions of enterprises and co-operation agreements that is taking place in the developed world is rooted in the very nature of technological innovation and entails a profound change in the world demand for capital goods and the conditions for their marketing. In this way, industrial modernization aims to reduce manufacturing costs, shorten production time, guarantee better quality, respond more rapidly to customers' requirements, and face fluctuating market needs with greater flexibility.

All these trends have greatly increased international competitiveness in domestic and export markets. In the Latin American countries, modernization of the capital goods industry is not only a question of financial resources, but also a challenge to obtain the appropriate technology. The distance of part of the region from the world centres of technological innovation, the insufficiency of local technological capacities and the slow dissemination of the new technologies in Latin America, are some of the obstacles that must be overcome.

Another regional problem in the field of capital goods is the potential for broadening the productive base in the medium-sized and small countries during the 1990s. The productive base for capital goods is at present rather narrow in this group of countries.

A series of countries has idle capacity at the moment. However, as the example of Chile demonstrates, when the economy is reactivated, the situation can change rapidly, i.e., from a situation of inactivity to one of making full use of that capacity.<sup>3</sup> Moreover, in the group of coun-

<sup>2</sup>See, for example, the Economic Commission for Europe (1988); Edquist and Jacobsson (1988), and the Commission of the European Communities (1985).

<sup>3</sup>In Chile, the production capacity for elements for boilers increased from 38 000 tons a year to 75 000 tons a year in recent years, as a result of a reactivation of demand and change in the contract policies of State enterprises.



tries under consideration, supply is somewhat diversified and, in particular, there is an insufficient production of machinery, or capital goods of a certain level of complexity and specialization. The requisites for achieving these goals are above all the introduction of stable and clear rules for the development of the sector. These should provide reasonable protection for national industry and lines of financing for selling locally-produced capital goods in domestic and external markets, along with a series of other collateral measures. Moreover, the enterprises and industrialists of the medium-sized and small countries need help in acquiring the experience that the capital goods industry in the neighbouring countries have. These needs must be rapidly satisfied by a number of practical actions. For example, possibilities would have to be created for technicians and specialized workers of the medium-sized and small countries to be trained in the factories of the more advanced countries of the region. Industry representatives from the medium-sized and small countries have repeatedly made these needs clear.<sup>4</sup> Probably, as a next step, the industry of the more advanced countries would become sensitive to these demands, by opening their doors and announcing their availability for training. Governments could complement the private sector's initiatives by sponsoring and supporting the programmes and other measures.

Finally, the fact that only a very small proportion of the external supply of capital goods for the countries of the region is of regional origin invites reflection. The medium-sized and small countries represent approximately half the regional imports of capital goods and, consequently, they are very important as buyers in the regional context. Would it not be possible and desirable for everyone to combine to some degree the local capacities of these countries with those existing in the more advanced countries of the region, with the express object of increasing local participation in the supply of machinery and equipment? Would it be realistic to think that the medium-sized and small countries negotiate access to their markets in

exchange for training facilities, for example? Finally, would it be feasible to establish tripartite associations between local, regional and producers from developed countries, in which the developed countries would provide technologically advanced goods and services and a quota of additional financing? A task related to this point faced by the countries in the 1990s consists in strengthening the negotiating capacity of local enterprises.

It was mentioned above that government policies were formulated in part of the region to promote the production of capital goods. The necessary mechanisms for analysis and promotion were created for this objective. However, until recently, the different national views of sectoral development were elaborated in complete isolation. The governments of the Latin American countries took steps to overcome this situation when they approved a project of regional co-operation, which ECLAC carried out with UNIDO in the 1980s, under the auspices of UNDP. As a result of this work, there is now a coherent view of the situation of supply and the production of capital goods in the region.

This article, based largely on the results of the ECLAC/UNIDO/UNDP regional project, is composed of two sections.

In the first, some characteristics of the supply and demand of capital goods are presented for the countries of the region as a whole. An important question is the size of the domestic market in the different Latin American countries and in the region as a whole. This is relevant if we consider that the production of capital goods is developed in a country, at least in a first phase, on the basis of supplying the domestic market. If the possibility of bringing the countries together in a regional context is included, for example, by negotiation with extraregional agents, the question about the size of the regional market becomes also relevant. Another consideration is the sectoral structure of the demand for capital goods. This information shows the user sectors where demand is concentrated in a few projects, and those where it is widespread.

Thirdly, estimates are presented concerning the degree in which the different Latin American countries supply themselves with capital goods or, on the contrary, the degree to which

<sup>4</sup>See, for example, the remarks of the industry representatives from Argentina, Colombia, Costa Rica and Venezuela in ECLAC (1989c).

they depend on imports. This provides the answer to the question about the impact of trade in capital goods on the countries' balance of payments. Finally, this section attempts to measure the progress needed by the Latin American countries in the production of capital goods in terms of an international comparison.

The second section highlights a particular problem of the development of the capital goods industry in the region, namely the production, in the small and medium-sized countries, of equip-

ment for the basic industries. For this purpose, the results of research on current manufacturing capacity are presented. Next, some estimates are given in order to illustrate the participation that could be attained by locally supplying machinery and equipment to investment projects in the different basic sectors. Two options were considered for this purpose: local manufacturers either proceed independently or alone, or act in association with producers from the more advanced countries of the region.

## I

### Main characteristics of the supply and demand of capital goods in the region

This description of the supply and demand of capital goods refers in general to the group of Latin American countries that form part of the Latin American Integration Association (LAIA) and the Central American Common Market (CACM). In some cases, Panama and the Dominican Republic are included. For the other countries of the region, it is not only more difficult to obtain data comparable to those of the first groups considered, but also their problems of supply and production of capital goods are different. The reasons for this are to be found in the size of their market and in other specific circumstances.

At the end of the 1980s, Latin America and the Caribbean represented a demand for capital goods which, as an investment value in machinery and equipment, can be estimated at US\$70 billion a year. This figure is below the level that demand for capital goods reached at the beginning of the decade. In spite of this contraction, the region still represents at the present time a considerable part of the world demand for machinery and equipment. If specific products are considered, the weight of the region as a whole is very important. For example, hydroelectric works programmed for the period 1980-2000 show that regional needs amount to an estimated 1 913 units of hydrogenerator groups,

with an average potential of 142 mW.<sup>3</sup> Although the demand for this equipment has contracted greatly in recent years, these projections at least show the needs that the region would have in normal conditions of economic growth. It was estimated that, in a normal situation, Latin America represented approximately a third of the western world's demand for this kind of equipment.

Returning to the consideration of the size of the markets —if capital goods are taken as a whole and compared historically, it can be observed also that the demand for capital goods in the different countries is sufficiently large to support the development of a rather significant local production. Thus, Brazil represented before the financial crisis, in 1980, a domestic demand similar in size to that of the German Federal Republic in 1965, while the markets of Chile, Peru or Colombia were similar in size to some small countries in northern or central Europe. Finally, the region as a whole formed a market as big as that of the United States 25 years before.

Latin America presents a sectoral structure of its demands for capital goods that reflects its particular economic physiognomy and invest-

<sup>3</sup>ECLAC (1983).

ment needs. The outstanding sectors are those of the economic infrastructure, especially electric energy, those that extract preliminary products, particularly petroleum, mining and agriculture, and the basic or primary processing industries. These sectors represented in the 1970s approximately 40% of the total demand for capital goods in the region.<sup>6</sup> The participation of these sectors is probably somewhat less at this time, as one of the consequences of the financial crisis affecting the region. Since most of these sectors are the main users of heavy equipment made on demand, the crisis would have affected more severely the local producers of this kind of capital equipment.

In global terms, the regional demand for capital goods was at the end of the 1980s some 25% below the highest level reached in 1980. The differences between the distinct countries are notable.<sup>7</sup> While demand in Brazil declined by the regional average, that of Argentina has been cut almost in half. Another group of countries, including Colombia, Costa Rica, Chile and Paraguay, have recovered their previous level or are about to do so.

The degree of supply is expressed as the share that national production for the domestic market has in the value of the domestic demand for capital goods. The value of national production is difficult to estimate over a series of years, except in a few cases in which the national accounts indicate in what proportion investment in machinery and equipment is of national origin or imported. In the other cases, it generally depends on the information obtained from the industrial censuses that the countries of the region normally carry out every 10 years. For this reason, the figures mentioned below go back to 1980. At that time, Brazil would have supplied 74% of its own needs; Argentina, Mexico and Peru would have reached a degree of national supply that varied according to the country between 59% and 60%; while in most of the other 15 Latin American countries, this relation fluctuated between 17% and 35%. According to

these estimates, Latin American supply was 57% of national origin as opposed to 43% imported. There is no indication that the drop in demand for capital goods that took place during the 1980s originated in substituting national production for imports or vice versa.

In the conditions under which the Latin American economies operate, particularly at the present time, the question of the impact of imports or trade in capital goods on the balance of payments is very pertinent. These amounts can be compared with total exports of goods for that purpose. There are two extremes in the situation of the different countries: Brazil, which has increased its capital goods exports considerably, to the point where it has almost completely compensated for its imports of those goods, and the other Latin American countries, whose exports do not compensate for their imports. In Brazil, the trade balance for capital goods represented in 1975 half of the income from their total exports of goods, and in 1987 only 1%. Naturally, this result was obtained both because of the increase in their exports as well as because of their lower imports of capital goods. In the other Latin American countries, uncompensated capital goods imports strongly influenced the balance of payments in the period prior to the financial crisis. Considering the group of countries in the Latin American Integration Association and the Latin American Common Market, but without Brazil, the commercial balances of capital goods represented approximately half of the value of the total exports of goods between 1975 and 1981. In 1987, that proportion had dropped to 19% as a result of the increase in total exports of goods, the decrease in capital goods imports and, to some degree, also because of the increase in capital goods exports in the case of Mexico.

The value added of the production of capital goods can give an idea of the importance and the level of development reached by this industry in the different countries of the region. The information is derived basically from industrial censuses, and in the case of the Andean countries, from the research carried out by the Board of the Cartagena Agreement.<sup>8</sup> The results of the estimates made on the basis of these data generally

<sup>6</sup>This figure is derived from research carried out by the Joint ECLAC/UNIDO Industry and Technology Division for the 1970s. See Jorge Beckel and Salvador Lluch (1982).

<sup>7</sup>This is indicated by the statistical series on investments in machinery and equipment elaborated by ECLAC's Statistics and Projections Division. See ECLAC (1989a).

<sup>8</sup>See JUNAC (1985).

refer to 1980. In terms of value added, the figures for the production of capital goods were the following: Brazil, US\$12 billion; Argentina and Mexico, between US\$2 billion and US\$3 billion; Colombia, Chile, Peru and Venezuela, production levels between US\$250 and US\$550 million; and Bolivia, Costa Rica, Ecuador and Uruguay with production figures between US\$15 million and US\$100 million. As can be observed, there is a marked variation in value added in the capital goods industries of the different countries. Brazil represents 60% of the value of the total production of the region, and Argentina and Mexico together, a quarter. Brazil's production is 25 to 50 times greater than that of a country with an intermediate-sized market. Even though production figures for recent years are unavailable, from the decline which has occurred in the levels of investment in the region, it can be inferred that the production of capital goods would have contracted in the majority of the countries. Moreover, the recession in investment in machinery and equipment affected unequally the different production sectors of capital goods. Finally, export possibilities have not been the same for all the productive sectors of all the countries.

With this data on the level of development that the capital goods industry has reached in the region, an international comparison can be ventured.<sup>9</sup> For this purpose, somewhat broader groups of capital goods must be used, in other words, the metal manufactures and machinery industry defined as group 38 of the Standard International Industrial Classification or, in the case of external trade, to machinery or transport equipment, as section 7 of the Standard International Trade Classification. In both cases, capital goods represent from country to country a variable but always substantial proportion of the respective value of production or trade of the statistical category considered. Table 1, which shows some of the characteristics of the development of the capital goods industry in 1980, includes a group of 35 countries: Latin American countries, developed countries with a market economy and developing countries in Asia. In

the first column is the share of the metal manufactures and machinery industry in the total value added of manufacturing. The three remaining columns show some characteristics of the external trade of machinery and transport equipment. These columns represent the share of machinery and transport equipment in total imports and exports of goods and, finally, the relation between specific exports and imports. By observing the figures in the first column, it can be concluded that Argentina and Brazil have an industrial structure similar to those of some developed countries with market economies and somewhat superior to that of the Republic of Korea, as an example of a newly industrialized Asian country. The other Latin American countries are generally quite below this pattern, with the exception of Mexico, which occupies an intermediate position. By referring to column B of the table, which shows the weight of capital goods in the total imports of goods, it can be noted that the Latin American countries are generally similar to the other countries considered, with the sole exception of Japan. The situation changes when observing the percentages of column C, which indicate the weight of capital goods exports in the total exports of goods. In comparison with the developed countries, the Latin American countries do not stand out in this sense. The only exceptions are Brazil on the Latin American side, and Australia and New Zealand on the side of the developed countries. With regard to the Asian countries, Korea and Singapore are like the developed countries, and the rest like the Latin American countries. Finally, it is interesting to examine what relation there is between exports and imports of capital goods. It shows here that the Latin American countries generally compensate for a very small part of their imports of capital goods with exports of these same goods, while the opposite occurs among the developed countries. The situation of the developing countries of Asia is heterogeneous and agrees with what was pointed out above.

This analysis clearly indicates that in Latin America, with the exception of Brazil and possibly of Argentina and Mexico, the capital goods industry is lagging behind manufacturing production in general, and shows, moreover, a weak involvement in the world market.

<sup>9</sup>This observation is made in one of the reports of the ECLAC/UNIDO/UNDP project "La situación actual y las perspectivas del abastecimiento y la producción de bienes de capital en América Latina" (RLA/77/015). See ECLAC (1984b).

Table 1

INDICATORS OF THE METAL MANUFACTURES AND MACHINERY  
INDUSTRY IN DIFFERENT REGIONS OF THE WORLD, 1980

(Percentages)

Countries	A	B	C	D
<i>Latin America</i>				
Argentina	28.5	25.1	7.5	0.35
Bolivia	4.9	42.8	-	-
Brazil	34.8	23.3	18.2	0.58
Colombia	14.1	39.4	3.5	0.04
Costa Rica	9.9	30.7	3.6	0.08
Chile	15.0	28.1	1.3	0.04
Ecuador	12.2	53.3	1.2	0.02
El Salvador	7.4	24.2	2.0	0.08
Mexico	22.8	36.5	4.5	0.10
Paraguay	16.6	67.6	-	-
Peru	14.6	30.3	1.8	0.06
Dominican Republic	7.1	22.2	0.7	0.01
Uruguay	16.7	48.2	5.0	0.12
Venezuela	15.4	29.7	0.3	0.01
<i>Developed countries with market economies</i>				
Australia	31.0	36.1	7.1	0.22
Belgium	33.1	22.5	21.6	0.86
Canada	32.1	46.0	26.1	0.62
Spain	29.3	17.9	26.3	0.90
United States	43.9	25.0	40.2	1.39
Finland	26.6	26.6	17.7	0.60
France	38.6	21.3	33.7	1.30
Italy	36.4	20.2	32.5	1.26
Japan	41.2	6.0	58.4	9.04
Norway	35.1	28.5	12.2	0.47
New Zealand	25.0	27.7	4.3	0.14
Netherlands	32.6	19.7	16.2	0.81
United Kingdom	40.4	25.8	34.7	1.30
Federal Republic of Germany	43.9	18.7	44.9	2.47
Sweden	42.8	26.8	39.7	1.37
<i>Developing countries in Asia</i>				
Republic of Korea	24.2	22.5	20.3	0.71
Philippines	14.1	27.4	1.8	0.05
Hong Kong area	28.0	18.5	7.5	0.33
Indonesia	15.1	33.5	0.5	0.03
Singapore	51.6	29.4	26.4	0.72
Turkey	20.7	28.1	1.9	0.03

Source: United Nations, *Yearbook of Industrial Statistics*, 1980 Edition, vol. 1. *General Industrial Statistics* (ST/ESA/STAT/SER.P/19 (vol. I), New York, 1982. 1981, *Statistical Yearbook 1979/1980*, 31st Edition (ST/STAT/SER.G/29), New York. 1981, *Yearbook of International Trade Statistics*, 1980, vol. 1, *Trade by Country* (ST/ESA/STAT/SER.G/29), New York.

Note: Column A: participation of the metal manufactures and machinery industry (group 38 of the SIC classification, Rev. 2) in the value added in manufacturing.

Column B: Participation of machinery and transport material (section 7 of the SIC) in total imports of goods.

Column C: Participation of machinery and transport material in the total exports of goods.

Column D: Coefficient between exports and imports of machinery and transport material.

## II

### The potential of local production of equipment for the basic industries in the medium-sized and small countries

#### 1. *The production capacity for equipment made on demand*

We have seen that there is a marked variation in the production levels of the different countries of the region. In particular, the production volumes of the three countries with the largest markets, especially Brazil, far surpass those of the other countries. However, the capacity to produce capital goods in a country is expressed not only by the maximum value of the production that can be delivered in a given period; it also concerns the type of products which can be manufactured, the sizes and other technical specifications that can be offered and the manufacturing processes that are applied. In this regard, Argentina, Brazil and Mexico also show a great diversification in their supply, which is reflected, as we have seen, in the degree of supply which the local capital goods industry reaches in the domestic market of each of the countries. The participation of metal manufactures and machinery in the manufactured products is already comparable in the case of Brazil, and to a lesser extent Argentina and Mexico, to that of a typical developed country. Finally, Brazil and Argentina, and more recently, Mexico, generate exports of capital goods in appreciable amounts, which indicates their capacity of insertion into the world market.

On the other hand, the manufacture of capital goods in the medium-sized countries is relatively more out of date, and the same observation applies in general to the capital goods industry of the countries with relatively smaller markets with respect to the countries of the second group. It can be inferred from this that the development potential of the production of capital goods in the region is, always in comparative terms, greater at this time in the medium-sized and small countries. Second, the fact that the countries of the region have different levels of industrial development suggests that industrial

co-operation between productive enterprises of the countries with a different technological level could facilitate the upgrading of the production capacity in the countries of relatively less industrial development. From a regional perspective, therefore, it would be especially interesting to know what is the production capacity of the medium-sized and small countries.

Before considering this question, another observation should be made. Capital goods are usually classified in two large categories: those made on demand and those produced serially. The former are mostly for investment projects in infrastructure and basic industries. The enterprises of these sectors are usually large economic units, which often also have a certain capacity for project engineering. This can be an important factor for the development of technological capacities in the local capital goods industry. Moreover, investment projects, to the extent that they reach a certain size, require the participation of several suppliers or manufacturers, and therefore allow for or justify putting together operations of industrial co-operation on a regional or international scale. For these reasons, the information and observations presented below refer basically to goods made on demand.

Some general observations can be made about the installed capacity of the medium-sized and small countries. First, it can be noted that technologies proper to metallic structures and boiler products are more widespread than mechanical and electromechanical technologies, at least with respect to the manufacture of heavy equipment. The supply of mechanical products for heavy equipment is mostly spare parts. However, there are also some important investments for the construction of heavy machinery, but these are intermittent. Second, some technical missions carried out at the beginning of the 1980s reported that in most of the countries visited, production equipment was usually quite

old.<sup>10</sup> Because of the difficult economic situation of the Latin American countries in recent years, the situation cannot be expected to have changed much.

Third, the production capacity of large extractive and basic industries, railroads, naval shipyards and workshops of the other branches of the armed services is usually very large. These capacities normally do not compete in the market with manufacturers of capital goods, but rather respond to the needs of their own enterprise or institution, in competition with independent manufacturers or not. Lastly, the supply representative of the production capacity influences the particular economic structure of the countries. Thus, Chile, Peru and Bolivia stand out for their manufacture of mining and metal-working equipment, while the supply of the Central American countries and the Dominican Republic typically consists of equipment for the sugar industry and agricultural activity.

The production capacity of the medium-sized and small countries in some categories of capital goods made on demand is analysed below. Consideration was given to metallic structures, storage tanks and processing equipment, steam boilers, cranes, mining and metallurgical equipment, railway equipment and electric transformers. The information refers mostly to the predominant situation in the countries in the early 1980s, which could now be changed in some cases.

As mentioned above, the medium-sized and small countries are most developed in boiler-making. The most typical of the different products are storage tanks, processing equipment, heat exchangers and heavy metallic structures. Supply also includes welded structural components for a variety of equipment. Examples of this equipment are cranes, mining and metallurgical machinery and railroad cars. Manufacturing technology consists of cutting and shaping sheet metal and steel sections, welding elements together and relieving stress by heat treatment. A good way to assess the technical production capacity of a country in this kind of product is to observe the characteristics of the main operating

machines, cranes and furnaces for relieving stress. Table 2 shows the current situation in the Andean countries, including Chile and Central America and the Dominican Republic. Among the medium-sized countries, Venezuela stands out for its production capacity, as does Paraguay among the small countries. Table 3 shows the production capacity of the different countries, by the quantities of the different products that can be manufactured. The estimates presupposed an adequate use of productive installations, according to the technical structure of each establishment.

Steam boilers are of the watertube type in the high-powered category. Among the countries considered, Colombia has the most experience in the design and manufacture of these products. Units of natural circulation with a power of up to 900 metric tons of steam per hour were already being manufactured in the early 1980s. There was a high degree of national integration. Besides special-alloy tubes, only part of the domes and some accessories were imported. Peru, Uruguay and Venezuela also produce watertube boilers, but with less power. Cranes are made in most of the medium-sized and small countries. In reality, the structure is made there; the mechanical, electromechanical and electronic components are mostly imported. The models made are usually erector's derricks; rarely are they heavy-duty equipment like those used in the steel or metallurgical industries. The crane with most lifting capacity—750 metric tons—was made in Venezuela for the hydroelectric plant in Guri. Cranes of up to 200 metric tons of lifting capacity have been made in the other medium-sized countries. The small countries have made cranes with up to 40 metric tons of lifting capacity.

Chile and Peru have about the same technical capacity in mining and metallurgical equipment. They have made more progress in equipment for mineral-concentrating plants than in equipment for mining and metallurgy. The appendix at the end of this article gives an idea of the range of equipment manufactured in these countries. National integration is partial with respect to the first four items of mining equipment on the list. Most of the mechanical components, such as transmissions, gear-boxes, internal-combustion motors and hydraulic

<sup>10</sup> See, for example, ECLAC (1984a).

Table 2

**LATIN AMERICA: INDICATORS OF THE CAPACITY OF BOILER-MAKER  
ESTABLISHMENTS IN MEDIUM-SIZED AND SMALL COUNTRIES**

Country	Max. thickness of sheetmetal with cold cylinders <sup>a</sup>	Max. diameter and thickness of bottom and heads	Lifting capacity of cranes	Stress relief furnace
Bolivia	19 mm (3/4 in.)	2.5 m x 5/8 in.	10 ton	-
Colombia	60 mm (2 3/8 in.)	4.5 m x 1 1/2 in.	120 ton	5.6 x 5.6 x 23.0 m
Chile	50 mm (2 in.)	4.0 m x 7/8 in.	55 ton	4.0 x 5.0 x 20.0 m
Ecuador	45 mm (1 3/4 in.)	3.0 m x 1 1/2 in.	30 ton	-
Paraguay	75 mm (3 in.)	...	60 ton	6.0 x 4.0 x 10.0 m (950°C)
Peru	80 mm (3 1/8 in.)	4.0 m x 1 1/2 in.	60 ton	6.0 x 5.0 x 8.5 m
Uruguay	19 mm (3/4 in.)	...	20 ton	2.5 x 2.5 x 10.5 m
Venezuela	75 mm (3 in.)	5.0 m x 1 1/2 in.	200 ton	6.5 x 6.5 x 18.0 m (959°C)
Central America (Guatemala)	19 mm (3/4 in.)	2.5 m x 5/8 in.	10 ton	
Dominican Republic	32 mm (1 1/4 in.)	...	30 ton	3.0 x 2.5 x 10.0 m

*Source:* ECLAC, *Notas sobre la capacidad de producción de bienes de capital en algunos países latinoamericanos* (E/ECLAC/L.296/Rev.1), Santiago, Chile, 1984.

<sup>a</sup>Sheets 3.0 m wide, except in the cases of Paraguay and Venezuela, where the figures are for sheets 4.0 m wide.  
... indicates a lack of information.

Table 3

**LATIN AMERICA: ESTIMATED PRODUCTION CAPACITY OF BOILER ELEMENTS  
AND STRUCTURES IN MEDIUM-SIZED AND SMALL COUNTRIES**

*(Metric tons per year)*

Country	Metallic structures	Storage tanks	Pressure vessels and columns	Heat exchangers	Total
Bolivia	2 000	1 000	500		3 500
Colombia	15 000	15 000	8 000	3 000	41 000
Chile	18 000	15 000 <sup>a</sup>	3 000	1 000	37 000 <sup>b</sup>
Ecuador	6 000	8 000	2 500	500	17 000
Paraguay	...	...	...	...	...
Peru	12 000	10 000	4 000	2 000	28 000
Uruguay	...	...	...	...	...
Venezuela	65 000	35 000	20 000	10 000	130 000
Central America	4 000	2 000	500		6 500
Dominican Republic	4 200	1 500	800	200	6 700

*Source:* ECLAC, *Notas sobre la capacidad de producción de bienes de capital en algunos países latinoamericanos* (E/ECLAC/L.296/Rev.1), Santiago, Chile, 1984.

<sup>a</sup>Includes current capacity of the steel mill of CAP (5 000 metric tons a year).

<sup>b</sup>The production capacity of Chile is at present above 75 000 metric tons a year, owing to the reactivation of some boiler-making plants and the creation of new industrial capacity.

... indicates a lack of information.



controls are imported. The mining and metallurgical equipment listed is manufactured partly under licence and partly from local designs. Bolivia also manufactures some mining and metallurgical equipment, but of lesser dimensions. Colombia and Venezuela have recently developed large mining and metallurgical projects. This has also given an impetus to the production of some specialized equipment and components in both countries.

The metal manufactures and machinery industries of Colombia, Chile and Peru are quite experienced in the manufacture of railroad freight cars and their components. The railroads and mining enterprises provide most of the demand for this equipment. Supply includes special cars for transporting minerals and concentrates, equipped for unloading from the side or rear. Chile, for example, has manufactured cars with capacity for 100 metric tons. The three countries have begun to manufacture passenger cars, but on a lesser scale. The quantities of freight cars supplied in recent years have been quite large in some of the countries mentioned: all of them manufacture a rather extensive range of components; some have even exported on a large scale to the countries of the region. In spite of these favourable developments, the manufacture of moving railway equipment has not given rise to a specialized industry in Colombia, Chile or Peru, owing to a lack of continuity of demand and contraction in the sectors of demand. Proposals have been made occasionally to remedy this situation by programming the acquisitions of the State railroads. However, these proposals have only been put into practice sporadically.

Transformers are one of the products most representative of electrical equipment. A distinction is usually made between power-load and distribution transformers. The former are larger units and are designed and manufactured on demand, while the latter are typically products made in series. The manufacture of power transformers is well established in Colombia, Chile, Peru and Venezuela. The larger units made in those countries have a running voltage of up to 166 kV and a power potential of up to 50 mVA. The manufacturers are both locally-owned enterprises and subsidiaries of well-known international firms.

## *2. The possibilities of local integration according to different strategic perspectives*

A series of studies was carried out in the framework of the ECLAC/UNIDO/UNDP regional project to estimate the participation that the capital goods industry in the medium-sized and small countries could attain in the investment projects of some basic sectors.<sup>11</sup> Among these sectors and projects, particular consideration was given to electric energy generating plants, mineral-concentrating plants, cement factories, and pulp plants. With this objective, production units were considered that were representative, because of their scales and technological characteristics, of the known investment projects in the group of countries mentioned. The analysis included an identification of the main machinery, equipment and metallic structures used in the investment projects. Data were normally obtained on the more important technical characteristics and the weight and value of the distinct units. The knowledge of production capacity, acquired previously through research in some countries of the region, made it possible to estimate, on the basis of the weight and value of the machinery and equipment, the share of the supply that the local capital goods industry could attain. Two hypotheses were formulated for this purpose. One was that the local industry would undertake, basically without outside help, the manufacture of the equipment needed. In other words, it would operate exclusively with its own productive resources and technical experience. The second hypothesis supposed industrial co-operation among local producers and plants of the more advanced countries of the region. The presumption was that, through industrial co-operation agreements, the industries of medium-sized and small countries would basically have access to the manufacturing know-how of the more advanced partners.

A few observations are made below regarding the kinds of machinery and equipment that could be manufactured by local industry in the different countries, with respect to each one of the basic sectors and types of projects considered. Table 4 presents the coefficients of local integration that were estimated for the different cases.

#### a) *Hydroelectric plants*

It would be possible in the medium-sized countries to manufacture certain components for the turbines of the Francis and Kaplan type, such as the spiral casings and the ventilation shafts. To do so, the local enterprises would need technical support from enterprises specialized in the manufacture of this equipment. Given the experience of the region, this support could be given by certain factories in the large countries. For hydrogenerators, the possibilities for local integration would be less and would basically consist of the manufacture of some elements such as idling rings. On the contrary, most of the pressure tubes, sluices (with some limitations with respect to their mechanisms and drives), gates, gantry-crane structures, and the different metallic structures needed in hydroelectric plants could be manufactured in both the medium-sized and the small countries.

#### b) *Thermoelectric plants*

In Colombia there is a specialized enterprise that can provide the kinds of boilers required by public-service thermal power stations of the self-generating type constructed in the medium-sized and small countries. The other medium-sized and small countries have less technological capacity in this category. However, they can also make some of the components that go into a steam watertube boiler and the metallic structures required for the installation of a thermoelectric plant. In the medium-sized countries, these elements would be basically the water walls and economizers of the boiler, the air pre-heater, the vapour condenser, the deaerators, the casing and structure of the electrostatic precipitator, the ventilator casings, the metal casing of the chimney, the low-pressure steam piping, as well as the foundations of the boiler and the main building. In the small countries, the possibilities of local manufacture would include a more limited range of such elements.

#### c) *Mineral-grinding and smelting plants*

The medium-sized countries can manufacture most of the jaw crushers, cone grinders, ball and bar crushers up to 1 000 hp, feeders, classifiers, vibrating sieves, cyclones, flotation cells, thickeners, filters and driers. Manufacturing

possibilities would be more restricted for complex mechanical components.

In the small countries, the possibilities of local manufacture would be somewhat more reduced.

#### d) *Sugar mills*

In the medium-sized countries, and to some extent also in the small countries, parts of steam generators, exchanges, evaporators, vacuum receptors, conveyers, tanks and piping can be manufactured.

#### e) *Pulp plants*

In the case of the pulp industry, the possibilities of local supply were considered in relation to chemical and thermomechanical processes. The equipment used in each case is quite different.

In the small countries there are possibilities of local manufacture of essentially different boiler products and metallic structures. In the medium-sized countries, the manufacture of a large part of the mechanoelectronic equipment could also be considered. However, there are limits to the production of heavy machinery and self-propelled loading equipment.

#### f) *Cement plants*

A rather extensive range of equipment for cement plants can be manufactured in the medium-sized countries. This is particularly true for parts of the tube of the rotary furnace, as well as for the conveyer belts and gantry cranes, except the more complex electromechanical drives for this equipment. Finally, the local industries of these countries can supply the grinding parts of the mills and a series of light mechanical and electromechanical equipment.

The small countries could also make some components of the rotary furnace and the metallic tanks and silos, metallic piping and structures, as well as some structural components of the conveyer belts.

#### g) *Summary*

Table 4 presents a summary of the estimates of the degree of local integration that could be attained in different investment sectors and conditions of co-operation. The estimates made cor-

Table 4

**POSSIBLE PARTICIPATION OF THE INDUSTRY OF MEDIUM-SIZED AND SMALL COUNTRIES IN THE SUPPLY OF MACHINERY AND EQUIPMENT OF DIFFERENT INDUSTRIAL AND ENERGY PLANTS IN DIFFERENT CONDITIONS OF CO-OPERATION**

*(Percentages of participation on the basis of the value of the equipment)*

Type of plant	Size of plant	Medium-sized countries		Small countries	
		Alone <sup>a</sup>	Co-operation <sup>b</sup>	Alone	Co-operation
— Hydroelectric	300 MW	30	34	8	15
— Thermoelectric	150 MW	55	55	15	20
— Concentration of minerals					
— large plant	40 000 ton/day	43	...	...	...
— small plant	1 700 ton/day	57	...	...	...
— Sugar mill		60	...	...	...
— Pulp					
— chemical	500 ton/day	17	38	13	15
— thermomechanical	300 ton/day	18	27	10	16
— Cement	1 700 ton/day	45	...	20	...

*Source:* ECLAC/UNIDO/UNDP project, "La situación actual y las perspectivas del abastecimiento y de producción de bienes de capital en América Latina" (RLA/77/015).

<sup>a</sup>Corresponds to the degree of integration that local industry can attain if it acts independently.

<sup>b</sup>Corresponds to the degree of integration that local industry can attain if it has the technical support of the industry of the larger countries of the region.

... Means it was not evaluated.

respond to the value of the equipment. As can be observed, local industry can attain considerable rates of participation in all cases, especially in those which are representative of the medium-sized countries with regional industrial co-operation. Up till now, the facts have been different. Numerous investment projects were carried out with a minimum of local participation, often limited merely to assembly services. In this way, the countries have not been able to

take advantage of the opportunities presented to them to advance the technological and industrial development of capital goods. Few new plants are being constructed at this time. Investments are basically oriented to the renovation and modernization of industrial installations and projects are normally smaller than before. These circumstances could favour orders to local and regional industry, and therefore could turn around the previous trend.

### III

## Conclusions

The initial considerations and the picture of industrial reality presented in this article make it possible to draw some conclusions about the perspectives for the production and supply of capital goods in Latin America. First, the domestic markets of most of the Latin American coun-

tries seem to be sufficiently large to increase the production of such goods. This affirmation would be supported by the results of the comparison of the industrial situations of the Latin American and the developed countries. The developed countries, however, are more

involved in the world economy, which would be one of the conditions for developing the production of capital goods in Latin America.

Second, the Brazilian capital goods industry has reached a high level of development. This is shown by the value of its production, its participation in supplying the domestic market and the amount of its exports. It may be inferred that there is no basic need to expand productive capacity there in the next few years. The national effort should be concentrated on modernizing and restructuring the productive apparatus, together with gradually opening the sector to international competition.

Third, a question is raised about the conditions and way in which production can be developed in the other Latin American countries, particularly the medium-sized and small ones. This question is naturally closely related to the economic systems that the countries adopt. At present, the trend in the region is towards increasingly open economies, a liberalization of external trade and the introduction of economic and fiscal reforms. This kind of system facilitates the access of enterprises to specialized technology and inputs, at the same time as it exposes them to more competition. If these systems become the rule in the region, they could lead to greater commercial exchange and more reciprocity between countries in the field of capital goods.

Fourth, the development of the capital goods industry should count on government support. This support would be especially important already in the phase of economic reforms and

trade liberalization for ensuring the survival of the sector. International experience shows that this support is efficacious, possibly because it is concentrated in some specific areas. These include, in particular, technological development, trade financing and capital formation. The policies of the developed countries and, in the regional context especially the experience of Brazil, provide examples of the ways in which the government can lend support.

Finally, it should be recognized that economic integration and industrial co-operation could fulfil an important function for the development of the production and supply of capital goods in the region. The progress recorded in recent years has been concentrated in two geographical areas: one which is comprised of Argentina, Brazil, Uruguay, and to some extent, also Paraguay; and the other formed by the countries of the Andean Group. Broader groups of countries should come closer together. Moreover, the objective would not have to be limited necessarily to supplying the regional market. Access to extraregional markets and an improved Latin American position for acquiring and using technology should be visualized, perhaps as a priority. The formation of large economic blocs in the world, like the European Common Market, the agreement between the United States and Canada and the growing economic co-operation between the countries of South-east Asia, which are large zones providing capital goods and technology to the region, constitute a new challenge to the initiatives to unite the Latin American countries.

## Appendix

### CHILE AND PERU: PRODUCTION OF MINING AND METALLURGICAL EQUIPMENT

#### I.

##### *Mining equipment*

Pneumatic drill platforms  
LHD-type loaders, Diesel and electric motors  
Jumbo drills (under development)  
Motorized service vehicles  
Plate feeders, Apron type and chain up to 84 inches wide.

#### II.

##### *Mineral concentration plants*

Hydrocyclones  
Vibrating sieves up to 6 x 14 feet  
Rotating sieves up to 8 feet in diameter  
Rotating driers up to 12 feet in diameter  
Thickeners  
Spiral classifiers up to 78 inches in diameter

Flotation cells of the Denver and Galligher type up to 600 cubic feet  
 Disc filters up to 10.5 feet in diameter  
 Ball and bar crushers up to 13 feet in diameter  
 Jaw crushers with simple and double effect up to 16 x 30 inches  
 Roller grinders up to 24 x 24 inches  
 Conical breakers up to 3 feet in diameter  
 Hydraulic equipment to handling of casings.

## III.

*Metallurgical plants*

Copper converter, Pierce-Smith type 13 feet in diameter by 30 feet long  
 Refinery furnaces of 19 feet in diameter by 33 feet in length  
 Casting wheels for copper  
 Specialized equipment for electrolytic refineries  
 Cast steel scoops for metal and slag with a capacity of up to 20 metric tons.

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# Population and development in the Central American isthmus

*Andras Uthoff B.\**

The World Conference on Population held in Bucharest in 1974 continues to mark a watershed, because since then population policies have ceased to be the exclusive domain of Departments of Health. Ten years later, in Mexico, the consensus of the international community was ratified on the need to view demographic variables as being determined by socioeconomic and cultural factors, and in turn, as being determinants of the specific socioeconomic situations of each country.

It has not been easy to conceive and implement a comprehensive view of development and population in the design of policies that will have an impact on demographic variables. In this study, Mr. Andras Uthoff, the Regional Advisor on Population and Employment of PREALC (Regional Employment Programme for Latin America and the Caribbean), describes the solution developed by his institution in Central America, where the concept of standard of living is considered to be the best means of formulating the complex interrelations between demographic variables and economic and social development. From this viewpoint the author suggests a series of guidelines for attempting to define population and development policies within an appropriate context.

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## Introduction\*

This study analyses the interrelations between demographic and development variables in Central American Isthmus countries. Its central thesis is that these relations should be analysed using the concept of the people's standard of living and that they are manifested to a large extent in the labour market, since it is there that families contribute to economic development through their work and benefit from economic development by income and wages received. Thus, acting on these variables, population and development policies may be formulated.

Traditional approaches have turned out to be fairly unattractive for planners and population and development policy-makers, since they have placed too strong an emphasis on fertility control as a mechanism for resolving economic development problems. According to this criterion, development is identified with economic growth, and social investment is viewed as competing with productive investment for growth. Hence, it is concluded that it is necessary to check population growth in order to reduce demands for social investment.

According to another approach which is presented later in this study, it is suggested that a standard of living indicator be used as a criterion for dividing the population into different levels according to the benefits derived from economic growth. This provides an initial view of the heterogeneous nature of the population. Families thus classified show different kinds of behaviour in terms of reproduction, migration and exposure to death and disease as a result of the different ways in which they benefit from economic development. For the purpose of analysis, the family emerges as a unit which makes decisions not only on consumption but also on the participation in the labour market

\*A more elaborate version of this article was prepared for the "Seminar on Population and Development Policies in the Central American Isthmus" (Managua, 16-20 October 1989). On returning from this Seminar, my Honduran colleagues Rodolfo Aplicano, Roger Zavala and Irma Díaz from the Secretariat of Planning, Coordination and Budget (SECPLAN), Lesbia Balladares from the Department of Education and my colleagues Jesús Herrera, from Bolivia, and Daniel Rodríguez, from Chile, all perished in an air crash. The latter were acting as consultants for our projects. In homage to them all I wish to publish these ideas which we advanced in our work in Central America.

and the contribution to productive work which the family may undertake as a unit; likewise, the consequences of such decisions on family size, composition and mobility are weighed by this unit (CELADE, 1975-1980).

After diagnosing the situation in some countries of the Central American Isthmus according to this approach, the author presents a series of comprehensive population and development policy recommendations.

## I

### Traditional approach to population and development

According to estimates of the Latin American Demographic Centre (CELADE) for the region, the population of the Central American Isthmus has more than tripled in the 40 years since 1950. Estimates from the same source indicate that between 1990 and the year 2020 it will double once again. However, this is not what is most important. A population that grows at such high rates (the highest in Latin America), displays intermediate stages of demographic transition, in which fertility is still high and the death rate is declining. This brings about important changes in the population age structure. While fertility continues to be high and death rates to decline, the population grows younger, i.e., the number of young people increases in relation to total population and in particular to working-age population. Then, when fertility begins to decline, the situation changes and a greater aging of the population occurs.

Table 1 summarizes the main demographic indicators of these trends for the various countries of the Isthmus. Towards the latter part of the 1980s, the only countries to have reduced population growth as a result of low fertility were Costa Rica and Panama. El Salvador also showed major declines but this was a result of higher death rates and emigration caused by internal strife.

Population growth is not the only indicator to interact with development variables during this period. The demographic dependence ratio, i.e., the relation of population between ages zero and 14 and over age 65 to population between ages 15 to 64, does not experience major swings for any of the countries until 1970. This indicator summarizes what occurs in the population age structure. From 1970 onward, there were major

reductions in this indicator in Costa Rica and also in Panama. This was not the case in El Salvador, Guatemala, Honduras and Nicaragua, where it is estimated that until 1990 the dependence ratio will remain stable at one. In other words, in these countries, for every working-age person there will be one dependent-age person (under age 15 and over age 65).

For these four countries, CELADE projections show a decline in the demographic dependence ratio only as of 1990. This characteristic results from the delay in the demographic transition process of these countries.

It is also important to examine the growth rates of the working-age population (defined as being between the ages of 15 and 64) which involves those persons who may enter the labour force and for whom it is important to create jobs. It takes 15 years for this rate to respond to declines in fertility. Both in Costa Rica and in Panama, slower growth of the working-age population is seen only as of 1990 and this will occur much later on in the other countries.

The traditional approach (Coale, 1963) to population and development is shown in table 2. For given working-age population growth and for relatively constant participation rates, the labour force would grow at these same rates or with slight variations. Thus, in order to absorb this labour force productively, the country would need productive investments aimed at creating factories, businesses and jobs for the employment of these persons.

By using aggregate growth models, it is possible to determine the amount of investment necessary to absorb this labour force. First of all, these models relate the demand for jobs to



Table 1

CENTRAL AMERICAN ISTHMUS: CHARACTERISTICS OF  
POPULATION AGE STRUCTURE

	Population growth rates		Ratio of			Ratio vis-à-vis 1950 population	Participation by total isthmus population
	Total	Working age	Demographic dependence	Rejuvenation	Aging		
<b>Costa Rica</b>							
1950			0.96	0.85	0.11		0.09
1960	3.67	3.00	1.10	0.99	0.11	1.43	0.10
1970	3.42	3.69	1.04	0.94	0.10	2.01	0.10
1980	2.81	4.13	0.80	0.69	0.11	2.65	0.10
1990	2.81	3.14	0.74	0.63	0.11	3.50	0.10
2000	2.10	2.60	0.66	0.54	0.12	4.31	0.10
2010	1.64	2.05	0.59	0.45	0.14	5.07	0.09
2020	1.32	1.22	0.61	0.41	0.20	5.78	0.09
<b>El Salvador</b>							
1950			0.90	0.81	0.09		0.21
1960	2.85	2.40	0.99	0.90	0.10	1.32	0.21
1970	3.40	3.13	1.04	0.95	0.09	1.85	0.21
1980	2.35	2.38	1.03	0.94	0.09	2.33	0.20
1990	1.50	1.65	1.01	0.89	0.12	2.71	0.18
2000	2.53	3.01	0.91	0.79	0.12	3.47	0.18
2010	2.34	2.85	0.82	0.70	0.12	4.38	0.18
2020	2.00	2.75	0.69	0.57	0.12	5.33	0.18
<b>Guatemala</b>							
1950			0.94	0.85	0.09		0.33
1960	2.93	2.52	1.02	0.93	0.09	1.34	0.32
1970	2.84	2.87	1.01	0.92	0.09	1.77	0.31
1980	2.80	2.78	1.01	0.92	0.09	2.33	0.31
1990	2.89	2.86	1.02	0.92	0.10	3.10	0.32
2000	2.88	3.31	0.94	0.83	0.11	4.12	0.32
2010	2.62	3.27	0.82	0.71	0.11	5.33	0.33
2020	2.22	2.86	0.71	0.60	0.11	6.64	0.34
<b>Honduras</b>							
1950			0.92	0.86	0.06		0.15
1960	3.28	3.07	0.96	0.89	0.07	1.38	0.16
1970	3.10	2.60	1.06	0.97	0.09	1.87	0.16
1980	3.38	3.23	1.09	0.99	0.10	2.61	0.17
1990	3.44	4.00	0.98	0.88	0.10	3.67	0.18
2000	2.91	3.55	0.86	0.76	0.10	4.89	0.18
2010	2.39	3.20	0.72	0.62	0.10	6.19	0.18
2020	1.99	2.52	0.63	0.52	0.11	7.53	0.18
<b>Nicaragua</b>							
1950			0.95	0.87	0.08		0.12
1960	3.12	2.46	1.08	1.00	0.08	1.36	0.12
1970	3.24	3.17	1.09	1.01	0.08	1.87	0.12
1980	3.05	3.23	1.06	0.98	0.08	2.52	0.13
1990	3.40	3.65	1.01	0.92	0.09	3.53	0.13
2000	3.12	3.67	0.90	0.81	0.09	4.79	0.14
2010	2.63	3.41	0.76	0.66	0.10	6.22	0.14
2020	2.14	2.69	0.67	0.55	0.12	7.68	0.15
<b>Panama</b>							
1950			0.89	0.78	0.11		0.09
1960	2.79	2.30	0.98	0.86	0.12	1.32	0.09
1970	3.01	2.31	1.01	0.89	0.12	1.78	0.09
1980	2.78	2.91	0.88	0.76	0.12	2.33	0.09
1990	2.14	3.03	0.72	0.60	0.12	2.88	0.08
2000	1.81	2.26	0.65	0.52	0.13	3.45	0.08
2010	1.40	1.77	0.59	0.44	0.15	3.96	0.07
2020	1.10	1.13	0.58	0.38	0.20	4.41	0.06

Source: CELADE (1987).

absorb this force to the need for product growth. This ratio is referred to as the aggregate product/employment elasticity of a country, which tends to be 0.5. In other words, in order for employment to grow by 1%, the product has to grow by 2%, so as to absorb employment and raise workers' productivity.

Product growth requires a given volume of investment. The ratio of capital increase needed in a country to product increase is called the product/capital incremental coefficient of an economy and it may be estimated at approximately 0.33. In other words, in order for the product to grow by 1%, the net capital increase *vis-à-vis* total product of a country must be 3%.

By using these values, table 2 associates working-age population growth rates (which supposedly reflect work force growth with relatively constant participation rates) with the product growth necessary for productivity to increase and for jobs to be created for those persons. Finally, column 3 shows the net investment coefficient necessary for meeting these targets. The latter indicator relates capital increases to product volume of a country. Column 4 shows gross investment coefficients published by ECLAC for the period 1980-1987, which may be compared with those needed (net) in column 3.

This conventional model is based on the view that the difference between needed investment and effective investment reflects

significant social problems. Given the population growth rates, it is not possible to have the resources necessary to meet simultaneously the employment needs of the working-age population and the basic needs of the population as a whole. Some of these social problems were summarized by PREALC (1986) for Central America. This publication indicates, for example, that towards 1980, 75% of Costa Rica's population was engaged in modern work and the remainder in informal or traditional work. Panama also succeeded in having relatively significant numbers engaged in modern work, with 65% of its work force. In El Salvador, Guatemala, Honduras and Nicaragua, on the other hand, the work force was less successful in being employed in modern types of work. In El Salvador only 51% of its labour force was employed in modern work; in Guatemala 43%, Honduras 50% and in Nicaragua 48% (PREALC, 1986).

As a result of the crisis of the 1980s it would seem that in these countries percentages declined rather than increased (PREALC, 1988). Thus, for the Central American Isthmus during the 1980s, current conditions have been added to structural arguments that tended to conventionally interpret the relations between population and development, and this has aggravated the possibilities of employment being absorbed by modern enterprises.

This form of analysing interrelations between population and development may

Table 2

## INVESTMENT NEEDS FOR JOB CREATION BETWEEN 1990 AND THE YEAR 2000

	Working age population growth 1990-2000	Product growth necessary (Pee =.5)	Net investment coefficient necessary (Pcc =.33)	Effective gross investment coefficient 1980-1987	Percentage of work force in modern sector
Costa Rica	2.60	5.20	15.76	19.40	75.00
El Salvador	3.01	6.02	18.24	12.90	51.00
Guatemala	3.31	6.62	20.06	14.10	43.00
Honduras	3.55	7.10	21.52	18.70	50.00
Nicaragua	3.67	7.34	22.24	21.20	48.00
Panama	2.26	4.52	13.70	23.10	65.00

Source: PREALC, based on table 1; product/employment elasticity equals 0.5; product/capital incremental coefficient equals 0.33 (ECLAC, National Accounts and PREALC (1986)).

prove misleading unless careful consideration is given to its policy implications, in particular when it is introduced to those who have just begun to study the subject.

In terms of its consequences for standard of living and employment conditions, various weak points are revealed. To begin with, this model gives the impression that employment problems are only caused by work supply factors and, in particular, the working-age population growth rate. Moreover, it would seem that any measure dealing with demographic policies would only produce economic results over the long run, i.e., after 15 years. On the other hand, this type of analysis ignores the interrelation between demographic variables and those of development and the role they play in bringing about desired changes in death rates and fertility. The majority of changes in the demographic

behaviour of families responds to socioeconomic processes that account for the way in which the benefits of economic growth are distributed through the labour market or through government subsidy programmes. Lastly, this type of analysis overlooks a series of aspects related to the heterogeneous nature of sociodemographic behaviour, such as differences in fertility, participation in work by age, sex, and socioeconomic level, migration towards better employment opportunities by different family members and investment in human resources (education, health, nutrition). Besides, this investment is seen as competing with productive investment, when in fact, it is a complementary investment, given its stimulating effects on economic growth. (For a more in-depth criticism of this approach see Utboff and Pernia, 1986.)

## II

### Population, employment and standard of living

Another approach in analysing interrelations between demographic and economic development variables is dynamic and heterogeneous whereas the preceding approach was dynamic but homogeneous. This is shown in table 3 for Guatemala and Honduras, and is illustrated in figure 1 for urban Honduras.<sup>1</sup>

Figure 1 shows population age structure, stratified by per capita family income levels in urban Honduras, after grouping the population into family units. The groups are defined according to per capita family income value, ranking them from lowest to highest. Groups considered to be "indigent" are those whose per capita family incomes do not cover the cost of a subsistence food basket. The "non-indigent" poor are those who live in family groups where per capita family income accounts for between once and twice the value of the cost of the basic food basket. Finally, the "non-poor" are those

who live in families with per capita family incomes which exceed that value twice over. This grouping is based on family budget studies in Latin America which indicate that under normal conditions, families allocate 50% of their income to food, and the rest to other expenses such as transportation, housing, clothing and education (Musgrove, 1978).

Figure 1 shows that, while fertility has dropped among certain groups of the population, it remains high for others. Consequently, demographic indicators in table 2 vary by socioeconomic level, having an impact on investment needs for working-age and non-working-age populations and guiding resource allocation according to the preceding model. In other words, dependence and family size with its implications for the growth rates of different population age groups vary according to per capita family income. As other authors have pointed out in previous decades, "although families are an important mechanism for redistributing income at a given point in time, they are also an important motor for

<sup>1</sup>For figures illustrating other cases in Central America, see PREALC, 1989.

transmitting inequality into the future. To the extent that parents' income affects the probability of a child generating a high income when he reaches working age, equality of opportunity will not prevail and inequalities will persist once more" (Fishlow, 1972).

The characteristics of households that are grouped according to this stratification (table 4) suggest that this mechanism operates in the Central American Isthmus. The percentage of children is inversely proportionate to total per capita family income. This responds not only to greater household size, but also, and more intensively so, to lower productivity levels and occupational conditions under which working members are employed, as well as to greater unemployment levels, although they have lower participation rates.

Poverty profiles in the Central American Isthmus highlight low productivity levels and scarce employment opportunities as being determinants of the problems of poverty. These households are also the ones that show the highest fertility and young population structures. Consequently, to embark on a policy of change in family reproduction patterns, one would have to understand the factors which have an impact on the behaviour of households, grouped according to different socioeconomic levels, and have an influence both on the variables that cause their poverty and on the consequences of that poverty.

This approach emphasizes three elements: standard of living as a category into which population can be divided; the family as a unit of analysis; and interrelations between

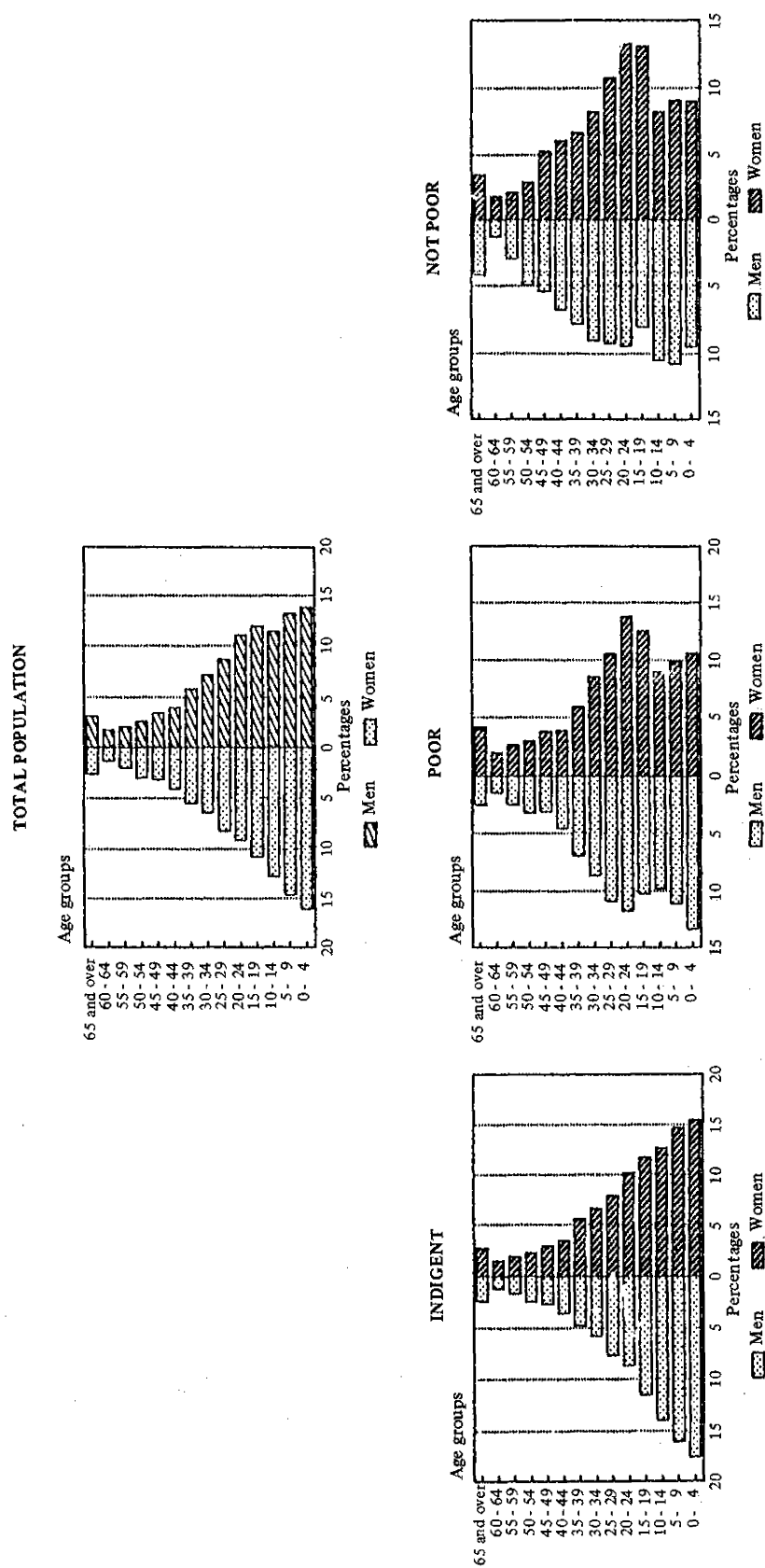
Table 3

**CHARACTERISTICS OF POPULATION AGE STRUCTURE, BY INCOME LEVELS IN SOME COUNTRIES AND SELECTED AREAS**

	Ratio of:			Ratio with:		Average age	Children/ woman ratio
	Demogra- phic de- pendence	Rejuvena- tion	Aging	Total house- holds	Total popula- tion		
Guatemala 1987							
<i>Main urban</i>							
Indigent	0.97	0.90	0.07	56.00	60.00	16.35	64.75
Poor	0.58	0.51	0.07	23.20	22.10	21.89	36.85
Non-poor	0.42	0.33	0.09	20.80	17.90	25.48	25.41
Total	0.75	0.68	0.07	100.00	100.0	19.11	49.70
<i>Remaining urban</i>							
Indigent	0.98	0.93	0.05	56.10	58.00	15.76	69.68
Poor	0.76	0.69	0.07	21.30	20.40	18.45	49.71
Non-poor	0.58	0.50	0.08	22.60	21.60	22.64	36.50
Total	0.86	0.80	0.06	100.00	100.00	17.47	58.73
<i>Rural</i>							
Indigent	1.17	1.12	0.05	81.10	85.10	13.90	92.32
Poor	0.81	0.75	0.06	13.50	11.40	18.36	58.84
Non-poor	0.56	0.50	0.06	5.40	3.50	22.45	47.85
Total	1.09	1.04	0.05	100.00	100.00	14.70	86.40
Honduras 1986							
<i>Main urban</i>							
Indigent	0.91	0.87	0.04	67.00	73.20	16.14	64.24
Poor	0.54	0.49	0.05	19.60	16.90	21.64	37.95
Non-poor	0.47	0.42	0.05	13.40	9.90	23.86	26.05
Total	0.78	0.74	0.04	100.00	100.00	18.00	53.90

Source: PREALC and GUA/85/PO2 and HON/87/PO2 projects with information from the National Statistics Institute (INE) and General Director's Office of Statistics and Censuses (DGEC), household surveys.

Figure 1  
URBAN HONDURAS: SEX AND AGE STRUCTURE



Source: PREALC and HON/87/PO2 containing information from the Dirección General de Estadísticas y Censos (DGEC).

Table 4  
HOUSEHOLD CHARACTERISTICS BY POVERTY LEVEL

	Indigent	Non-indigent poor	Non-poor	Total
<b>Costa Rica 1982</b>				
<i>Urban</i>	20.5	36.7	42.8	100.0
Household size	5.6	4.8	3.8	4.9
Percentage of children (under 15)	57.0	33.0	39.0	32.0
Employed/adults	59.0	57.0	70.0	67.0
Working/adults	67.0	61.0	71.0	67.0
Employed/working	89.0	94.0	98.0	93.0
Per capita income	466.0	1 042.0	3 299.0	1 921.0
Income per employed person	1 181.6	2 528.8	5 709.0	3 579.1
Total income	2 578.0	4 958.0	11 524.0	7 373.0
<b>Guatemala 1986</b>				
<i>Main urban</i>	56.0	23.2	20.8	100.0
Household size	5.2	4.6	4.2	4.9
Percentage of children (under 10)	32.3	19.7	14.9	
Employed/adults	46.0	53.0	64.0	51.5
Working/adults	50.6	56.5	66.5	55.2
Employed/working	90.9	93.8	96.2	93.3
Per capita income	31.4	96.6	289.5	100.2
Income per employed person	111.3	255.4	570.1	243.7
Total income	164.3	440.3	1 163.8	436.0
<b>Guatemala 1986</b>				
<i>Remaining urban</i>	56.1	21.3	22.6	100.0
Household size	5.8	4.8	4.0	5.2
Percentage of children (under 10)	32.8	25.6	18.4	28.9
Employed/adults	43.8	48.0	60.1	48.1
Working/adults	46.9	50.6	62.5	50.8
Employed/working	93.4	94.9	96.2	94.7
Per capita income	27.7	78.9	479.8	140.7
Income per employed person	104.6	250.7	1 250.4	397.6
Total income	153.8	374.4	1 882.4	591.2
<b>Guatemala 1986</b>				
<i>Rural</i>	81.2	13.5	5.4	100.0
Household size	5.9	4.7	3.6	5.6
Percentage of children (under 10)	37.1	26.7	23.2	35.5
Employed/adults	46.1	55.2	64.4	47.9
Working/adults	46.9	55.8	66.6	48.8
Employed/working	98.3	98.9	96.7	98.2
Per capita income	16.7	63.6	259.9	36.1
Income per employed person	63.3	177.5	554.6	105.3
Total income	94.5	298.0	1 014.1	171.3
<b>Honduras 1986</b>				
<i>Urban</i>	67.0	19.6	13.4	100.0
Household size	5.8	4.5	3.9	5.3
Percentage of children (under 15)	31.9	23.1	21.2	29.3
Employed/adults	42.4	54.4	60.7	46.5
Working/adults	49.0	58.2	62.3	52.2
Employed/working	86.5	93.5	97.4	89.1
Per capita income	79.0	243.6	742.8	200.4
Income per employed person	281.8	642.4	1 600.8	529.6
Total income	429.4	1 091.6	2 649.8	857.3

*Source:* PREALC, with information from household surveys, General Director's Office of Statistics and Censuses (DGEC) (Costa Rica), the National Statistics Institute (INE) (Guatemala) and General Director's Office of Statistics and Censuses (DGEC) (Honduras).

*Note:* The poverty line is set at 714 colones in Costa Rica, 68 quetzals in main urban Guatemala, 55 quetzals in remaining urban Guatemala, 47 quetzals in rural Guatemala and 172 lempiras in urban Honduras.

demographic and development variables as a mechanism for transmitting inequality into the future via the labour market. This is a much more useful method of analysing population phenomena, and has been studied in Latin American literature under the concept of family survival strategy.

Efforts at defining and characterizing poverty in a country are closely linked to the interrelation between demographic variables and the establishment of minimum survival levels (planning component). In general, per capita family income should be compared with some accepted measure of normal or standard income at a regional or national level. Minimum wage or minimum income normally tend to be used, and are defined according to minimum work requirements. However, these indicators vary in real terms *vis-à-vis* macroeconomic variables, such as, for example, inflation. The poverty line on the other hand, should at each moment reflect the cost of buying the necessary nutrients for family survival.

To this end, it is common to apply consumption studies which estimate elasticities with respect to family size. These elasticities indicate whether or not economies of scale exist. If they do, supposedly the most numerous families do not necessarily increase their consumption in the same proportion as their members increase, but rather in a relatively lower proportion. The opposite occurs in smaller families.<sup>2</sup>

The relation between the basic needs of a person, family size, cost of buying daily sustenance and family income is often disregarded in population studies. Working income has three fundamental functions: it reflects worker's purchasing power and therefore provides an incentive for them to offer their time in exchange for satisfying their families' needs; it involves a production cost for employers; and its readjustability has an effect on the setting of production prices, which makes it part of the inflationary movement. This triple function covers a wide area which has not been

duly considered in population and development studies.

Table 4 provides information on the four areas being analysed, in addition to urban Costa Rica for 1982, based on household characteristics according to poverty levels. These have been grouped according to their per capita income compared with the value of a subsistence food basket, according to the needs estimated by the Economic Commission for Latin America and the Caribbean (ECLAC).

Direct comparisons of per capita family income and poverty lines indicate that in urban Costa Rica (1982) indigent families accounted for 20.5% of families; in urban Guatemala (1986), 56%; in remaining urban Guatemala (1986), 56.1%; in rural Guatemala (1986), 81.2% and in urban Honduras (1986), 67%.

This criterion is highly sensitive to short-term economic price swings — i.e., the cost of the minimum subsistence food basket — and to working income or that from other sources, i.e., a family's purchasing power. It is also very sensitive to the concept and measurement of income, whether or not this includes income in kind, subsidies and transfers (Pollack, 1987). It also requires the application of a series of value judgements with respect to the dietary needs, over time, of various population groups, by regions. Still, it is the criterion most commonly recommended when undertaking poverty studies (Sen, 1976) (Altimir, 1978 and 1981) (Rodgers, 1984 and 1989).

The aspects or characteristics that distinguish poor households are clearly seen in table 4: family size and number of children over the average; high unemployment rates among working members; and income very much below average for each employed member. Poverty profiles in these countries consequently show that poverty is not only associated with demographic variables having an effect on population size, growth and composition, but that it also accounts for the population that is severely affected by employment problems. These include discouraged workers, or persons engaged in work that is not traditionally considered as such (low participation rates); the unemployed (i.e., those seeking work without a chance of finding any); and the underemployed (those who work or are employed in jobs with

<sup>2</sup>Elasticity equal to 1 has been assumed here, i.e., that there would be no economies or diseconomies in consumption with respect to family size. However, if this assumption were to change, conclusions of the study would not vary significantly.

very low productivity levels within certain lagging sectors of the economy).

To embark on a study of the interrelationships between demographic and economic development variables in the Central American Isthmus is consequently very promising. Poverty affects a high percentage of the population and is found closely linked to high fertility rates in households with major unemployment problems. A fairly close

correlation is seen between regions and levels in which low standards of living still persist, as does demographic behaviour that is characterized by high fertility levels. The dilemma faced by population and employment policy-makers is to discern whether the original problem is one of poverty or rapid population growth. Undoubtedly, both are mutually reinforcing over time in the intergenerational transfer of inequality and poverty.

### III

## Intergenerational poverty transfer mechanisms as elements for population and employment policy

The solution to immediate employment problems does not necessarily resolve either the problems of poverty or population. Demographic factors have an important role to play in the transfer of poverty from generation to generation. The number of children per indigent family varies significantly, and is very different from that recorded by non-indigent poor and non-poor families. As the tables show, there is an inverse relation between family size and the standard of living it attains.

The pattern described shows that the family, upon increasing its size, cannot escape a situation of poverty. Work by children and other secondary members of the family does not significantly contribute to family income. If this work exists, it is because poverty conditions demand this greater participation. Table 4 clearly shows that children who are educated and brought up under poverty conditions constitute a much higher percentage than that of children educated in families which are not poor. As has been indicated in various poverty profile studies, these children inherit a series of characteristics which increase their probability of remaining poor during their generation. Firstly, they are brought up under income conditions which prevent them from obtaining adequate levels of nourishment. Secondly, they will not receive legacies of assets or socioeconomic status which would allow them to overcome their situation of poverty. Their scant possibilities of education

will prevent them from using it as a mechanism for achieving social mobility. Also they will be instilled with limited aspirations based on the environment in which they develop. All these factors help to reduce their possibilities of access to stable work. Under these circumstances, barring direct intervention by planners and development policy-makers, the mechanisms which would aid these children to escape from poverty will not operate. These children participate to a lesser extent in the school system than do children of other socioeconomic backgrounds; they remain in it for fewer years and they advance less rapidly within it; they acquire very unstable attitudes towards work because of their informal status; they have little access to assets and credit; and they are forced to a greater extent to engage in low productivity work with little access to the formal mechanisms of the economy. Table 5 shows the situation described for Guatemala and Honduras as do figures 2a and 2b for urban Honduras, with indicators prepared from household surveys.

Five indicators show major discrimination against the poorest sectors:

i) Nutrition levels which the family may attain, measured as a ratio of average per capita family income for the stratum as a whole to the cost of the subsistence food basket;

ii) School attendance, which has been measured differently for Guatemala and for Honduras, since in the first case average school



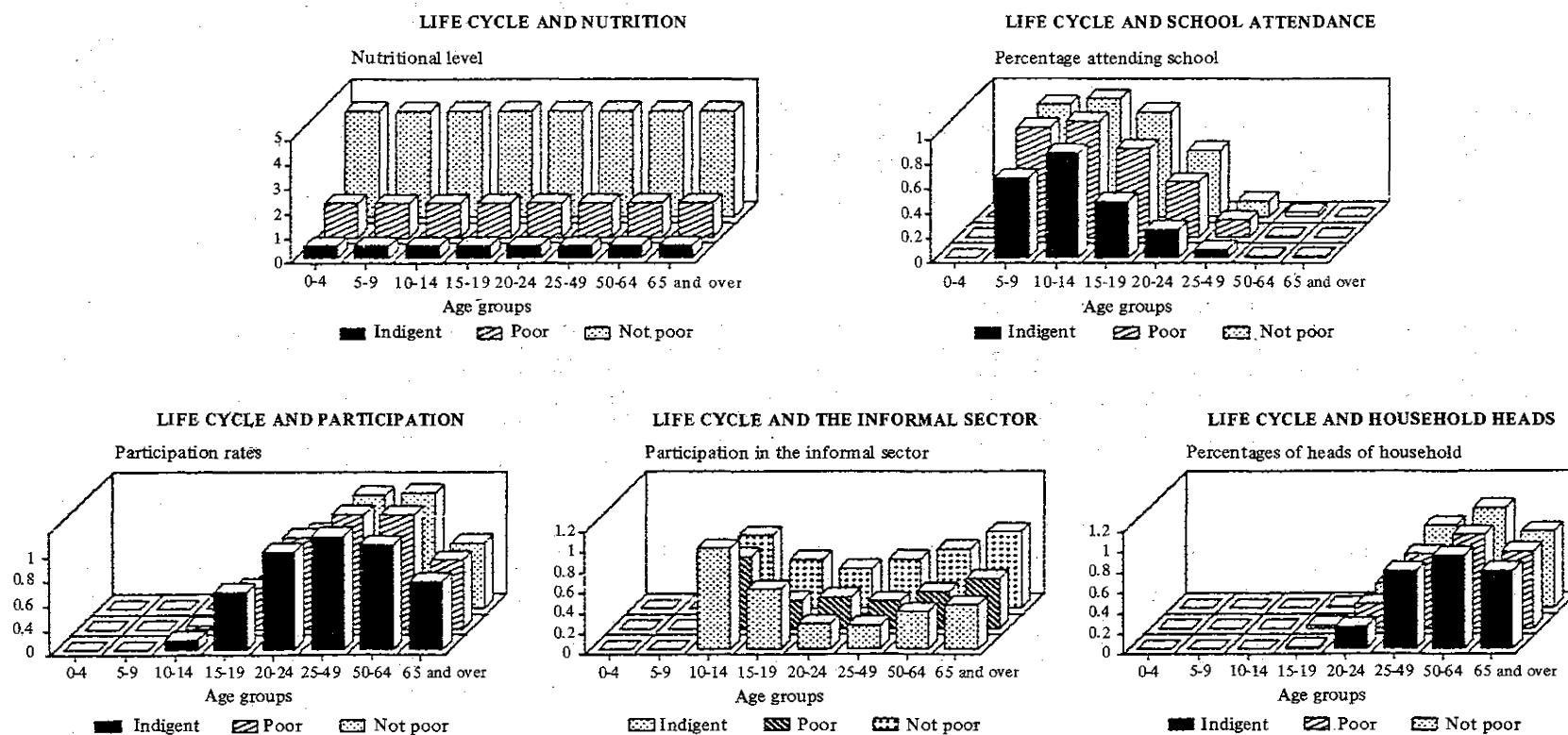
Table 5  
SOCIAL INDICATORS BY LIFE CICLE AND SOCIO-ECONOMIC LEVEL

	Nutrition			School attendance						Economic participation						Work in informal sector						Head of household					
				Men			Women			Men			Women			Men			Women			Men			Women		
	I	P	NP	I	P	NP	I	P	NP	I	P	NP	I	P	NP	I	P	NP	I	P	NP	I	P	NP	I	P	NP
<b>Guatemala</b>																											
<i>Main urban</i>																											
0-4	.5	1.4	4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5-9	.5	1.4	4.3	0.5	1.1	0.9	0.6	0.8	1.2	.19	.11	.02	.07	.12	.11	.78	.61	.99	.90	.96	.96	-	-	-	.00	.01	-
10-14	.5	1.4	4.3	3.6	4.5	5.4	3.3	4.7	5.4	.62	.46	.30	.29	.36	.49	.65	.53	.37	.77	.77	.68	.02	.03	.04	.01	.02	.01
15-19	.5	1.4	4.3	5.9	7.7	9.5	5.5	7.4	7.4	.87	.85	.83	.39	.55	.76	.59	.34	.26	.73	.49	.45	.24	.20	.24	.03	.02	.01
20-24	.5	1.4	4.3	6.0	8.3	11.5	4.7	7.8	9.0	.96	.98	.99	.40	.33	.77	.61	.32	.23	.84	.52	.34	.81	.69	.71	.15	.12	.11
25-49	.5	1.4	4.3	4.4	7.8	12.1	3.1	6.3	9.3	.89	.88	.98	.33	.31	.49	.75	.53	.29	.90	.90	.51	.93	.90	.99	.26	.31	.29
50-64	.5	1.4	4.3	2.5	4.7	10.2	1.8	3.9	7.4	.60	.43	.57	.21	.10	.10	.87	.70	.74	.99	.87	.96	.67	.81	.98	.33	.29	.30
65 +	.5	1.4	4.3	1.9	4.2	7.3	1.2	3.6	5.0							.66	.39	.28	.84	.59	.44						
<b>Total</b>																											
<i>Other urban</i>																											
0-4	.5	1.4	8.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5-9	.5	1.4	8.7	0.5	0.8	0.9	0.5	0.8	0.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10-14	.5	1.4	8.7	3.3	4.9	4.3	3.0	5.2	5.5	.16	.12	.12	.07	.09	.05	.92	.66	.67	.84	.99	.99	-	-	-	-	-	-
15-19	.5	1.4	8.7	5.1	8.0	8.4	4.6	6.0	6.2	.67	.43	.45	.24	.25	.47	.86	.59	.62	.76	.77	.92	.02	.05	.02	.02	.02	-
20-24	.5	1.4	8.7	6.1	7.5	10.3	4.2	7.2	8.8	.85	.94	.90	.30	.42	.71	.69	.28	.26	.77	.61	.44	.20	.29	.41	.04	.02	.02
25-49	.5	1.4	8.7	4.0	8.0	11.0	2.4	6.4	9.3	.97	.95	.99	.34	.47	.68	.68	.28	.32	.85	.64	.27	.79	.84	.78	.11	.13	.17
50-64	.5	1.4	8.7	2.5	5.1	7.7	1.4	3.2	4.7	.88	.93	.93	.32	.41	.43	.68	.35	.45	.98	.95	.67	.85	.99	.99	.30	.31	.37
65 +	.5	1.4	8.7	1.3	5.3	5.0	1.8	2.6	4.3	.55	.46	.72	.42	.12	.34	.92	.65	.54	.99	.99	.99	.71	.87	.99	.42	.12	.34
<b>Total</b>																											
<i>Rural</i>																											
0-4	.4	1.4	5.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5-9	.4	1.4	5.5	0.2	0.4	1.4	0.2	0.6	0.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10-14	.4	1.4	5.5	2.1	3.4	4.2	1.5	3.0	4.0	.34	.24	.11	.07	.14	.25	.87	.61	.99	.78	.85	.99	-	-	-	.00	-	-
15-19	.4	1.4	5.5	3.0	4.3	5.3	2.2	4.0	5.4	.86	.84	.82	.19	.30	.43	.77	.51	.74	.71	.64	.74	.02	.03	.08	.00	-	.08
20-24	.4	1.4	5.5	2.5	4.2	7.4	1.4	3.5	5.1	.98	.97	.89	.12	.23	.61	.76	.44	.40	.79	.74	.62	.51	.35	.34	.01	.04	.04
25-49	.4	1.4	5.5	1.1	3.3	7.7	0.8	2.5	6.5	.99	.99	.99	.17	.34	.57	.72	.41	.34	.91	.89	.46	.85	.75	.86	.08	.07	.07
50-64	.4	1.4	5.5	0.6	1.3	2.4	0.3	0.5	3.0	.95	.93	.97	.14	.20	.40	.82	.55	.66	.93	.86	.50	.95	.93	.97	.20	.19	.37
65 +	.4	1.4	5.5	0.4	0.3	2.0	0.2	0.8	1.0	.67	.73	.62	.11	.18	.04	.92	.88	.36	.93	.90	.99	.85	.97	.86	.29	.38	.04
<b>Total</b>																											
<b>Honduras</b>																											
<i>Main urban</i>																											
0-4	.5	1.4	4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5-9	.5	1.4	4.3	.65	.89	.91	.69	.87	.94	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10-14	.5	1.4	4.3	.85	.94	.96	.87	.94	.93	.08	.03	.00	.05	.05	.10	.72	.71	.99	.95	.99	.99	-	-	-	.00	.00	.00
15-19	.5	1.4	4.3	.46	.72	.85	.53	.64	.57	.47	.34	.22	.21	.30	.50	.48	.28	.59	.71	.79	.87	.02	.03	.02	.01	.01	.00
20-24	.5	1.4	4.3	.23	.45	.54	.20	.35	.38	.80	.75	.63	.43	.55	.72	.39	.31	.25	.58	.45	.64	.22	.24	.24	.03	.02	.04
25-49	.5	1.4	4.3	.07	.14	.13	.05	.09	.15	.93	.94	.93	.52	.69	.79	.48	.27	.23	.65	.30	.40	.76	.73	.81	.17	.14	.08
50-64	.5	1.4	4.3	.01	.01	.04	.01	.02	.04	.86	.94	.95	.32	.43	.58	.58	.36	.36	.85	.61	.51	.91	.92	.98	.34	.27	.26
65 +	.5	1.4	4.3	.01	.00	.00	.00	.01	.02	.56	.57	.54	.18	.14	.25	.75	.49	.43	.95	.99	.91	.76	.75	.75	.30	.24	.21
<b>Total</b>																											
																.49	.30	.27	.68	.43	.53						

Source: PREALC, with information from the National Statistics Institute (INE) (Guatemala) household surveys, and General Director's Office of Statistics and Censuses (DGEC) (Honduras).

Note: I = Indigent; P = Poor; NP = Non-poor.

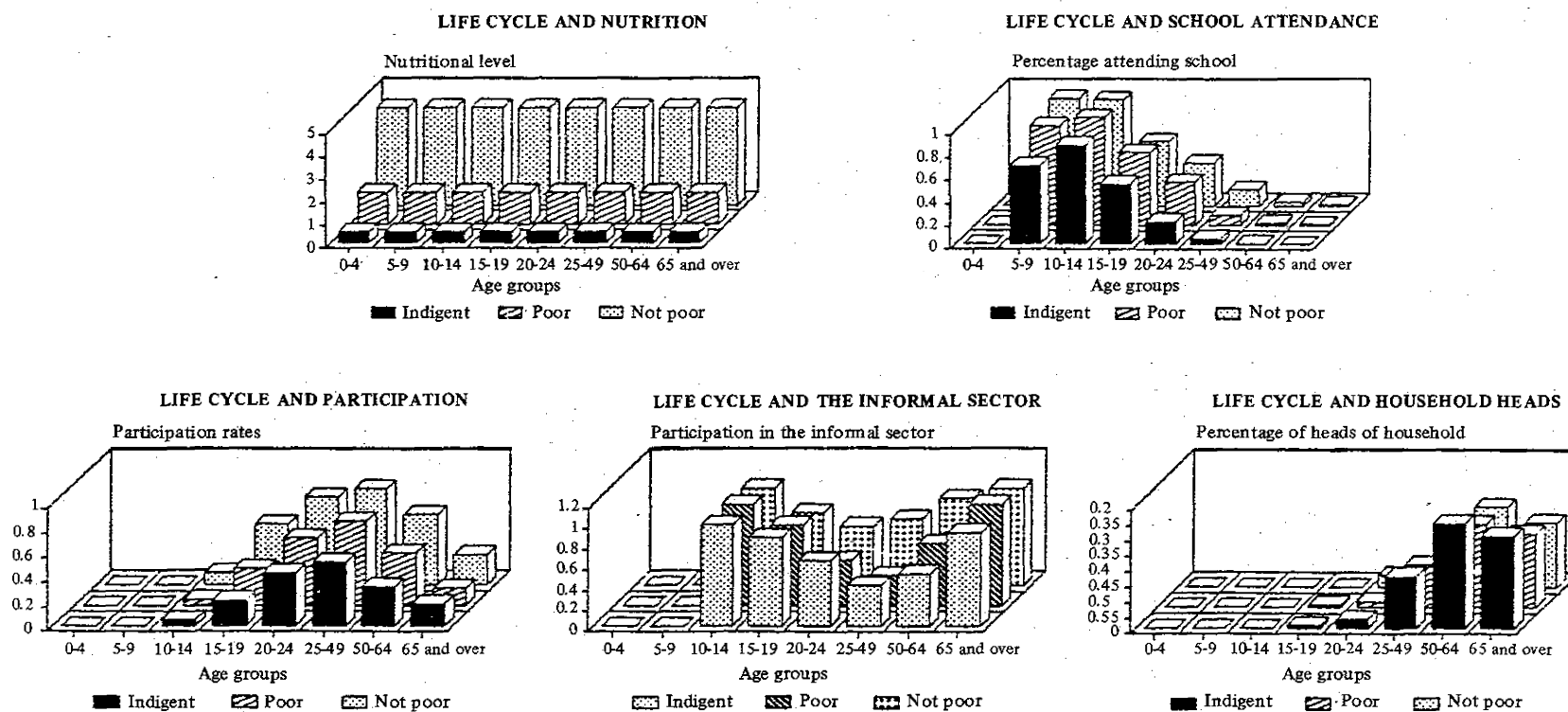
Figure 2a  
URBAN MEN: HONDURAS



Source: PREALC household surveys, INEC and the Dirección General de Estadística y Censos (DGEC).

Note: Note change in order of the strata in the informal sector

Figure 2b  
URBAN WOMEN: HONDURAS



Source: PREALC household surveys, INEC and the Dirección General de Estadística y Censos (DGEC).

Note: Note change in order of the strata in the informal sector.

attendance is shown for each age group within each socioeconomic level and, in the second, it is the percentage of persons within each age group that attend school;

iii) The conventional statistical indicator of work, which represents the specific participation rate by age group, and which varies according to the definition of economic activity used. For Honduras and Guatemala economic activity is understood to be that in which persons seek or engage in work, whether paid directly or as an unpaid family worker. It does not include housework.

iv) The percentage of working persons engaged in the informal sector of the economy, presented for each age group of persons over age 10 and for each level separately;

v) The percentage of persons in each age group who are heads of household.

These five fairly straightforward indicators illustrate how the interrelations of demographic and development variables act in the intergenerational transfer of poverty. In the latter four —school attendance, economic participation, work in the informal sector and head of household— the values are provided separately for men and women. The first does not vary by either sex or age, since it is an indicator that measures the potential level of nutrition reached on average by all family members.

The indicators identified illustrate important elements of the vicious circle of the intergenerational transfer of poverty. We should formulate population and development policies by looking for a way to break this vicious circle.

### 1. *Poverty, life cycle and nutrition*

As is clearly and equally seen for both countries and the regions where it has been measured, indigent households start off with deficient nutritional levels, which only reach half of the levels considered as acceptable according to standards for the subsistence food basket. Non-indigent poor households have the income to meet their minimum dietary needs and to have another 40% per individual at their disposal for other basic expenses. Lastly, non-poor households have over four times the necessary

income to buy the subsistence food basket for each family member.

An important element of population and development policies should be aimed at closing this gap in nutrition levels for children from various socioeconomic levels, at least at the younger age groups.

### 2. *Poverty, life cycle and schooling*

Once having succeeded in achieving sufficient nutrition levels at the pre-school age, population policy should then seek greater equality in access to schooling. As is seen in two indicators (that of Guatemala, which measures the average level of schooling attained by different age groups and, that of Honduras, which measures the percentage of the population that attends school at different ages), equal opportunity for education is non-existent. For Guatemala, regardless of the region, in all age groups the average schooling reached by children from non-poor households exceeds that from non-indigent poor households and indigent households.<sup>3</sup>

In Guatemala, especially in urban areas, the difference is particularly significant among the 15 to 19 age-group, i.e., starting from secondary school. At this same age the difference in schooling reached by men *vis-à-vis* women also begins to be significant. Consequently, population policy in Guatemala in urban areas should also promote investment in education so that it can succeed in equalizing educational opportunities by socioeconomic level and by sex. In rural Guatemala much lower levels of schooling are attained both by men and women in the different age groups *vis-à-vis* those reached in urban areas. It should be remembered that a high percentage of the total population in both Guatemala and Honduras are still found in rural areas.

Despite low levels of schooling attained by the rural population as a whole, major differences are observed by socioeconomic level. On the other hand, the levels reached by the non-poor population are similar to those at indigent

<sup>3</sup>We recognize that this indicator may be distorted by the effect of age structure within each regional group; however, we do not think that this explains all variations of values observed.

levels in urban areas of Guatemala. Consequently, investment in education for the population of Guatemala should be aimed particularly at the rural areas. This does not mean relying only on educational services for this population, but, to a much greater extent, it means creating conditions so that children may attend school without detriment to the other tasks they carry out as part of the family's survival activities. This is an area to which population policies should pay particular attention. Once again in the rural context there is a marked difference by sex favouring men.

Lastly, in the urban areas of Honduras, the pattern is similar to that shown in Guatemala. Nevertheless, it should be observed that the indicator used in this case is that of school attendance and not level of schooling reached by each age group. The pattern is sufficiently clear to show that in urban Honduras participation in the school system by socioeconomic level is also different. This difference is especially significant at the ages of 15 to 19, when students enter or participate in secondary education. Also, as in Guatemala, there is marked differentiation by sex against women from this level onwards.

### 3. *Participation in work and life cycle*

#### a) *The situation of men*

Even with the narrow definitions used to measure work, one sees, particularly in the case of men, an earlier incorporation into the labour force in poor indigent households than in those at other levels. This variable shows totally different behaviour by level for young men in urban areas. Incorporation into work occurs at a much earlier age among male youths at indigent levels than in poor and non-poor levels. This hinders improvement of school attendance rates. The situation is much more widespread at the rural level, where from ages 15 to 19 participation rates reach levels over 80%.

Participation rates in the rural areas of Guatemala are similar for all levels from ages 15 to 19 onwards, where participation rates are already over 80% for all levels. These rates continue in fairly similar fashion up to age 64. At retirement age the rates continue to be much higher than those observed for urban levels.

The conflict between the need to contribute to family income and to attend school is one of the issues which population policy has to tackle.

#### b) *The situation of women*

The situation of women is very different from that of men. In general, regardless of the region or country, the rate of female participation in non-poor households is higher at an earlier age. This may result from the existence of domestic service in these households, which counts as part of those households. Taking this situation into account, from ages 20 to 24 on-wards and almost throughout the entire length of their life cycle, women's participation rates at non-poor levels are greater than at the other two levels. It should be pointed out that as part of survival strategies of the indigent poor and the non-indigent poor, work carried out by women is not considered to be economic activity as it is measured in surveys. Research by the International Labour Organisation has explored the importance of redefining the concept of work with major changes in measurement (ILO, 1988).

In any case, paid work, which is that used by surveys to measure the rate of participation, is possibly that which permits non-poor households to escape from a situation of poverty by having their women contribute additional income. Once again this behaviour which is common to all regions is much more marked in the rural context.

The implications of women's work for population policy are different than those of men. One should point out the role played by domestic service in the measuring of women's work by socioeconomic level. Given the way in which it has been measured, in this research study there may be a significant distortion in the measuring of these rates by level, since maids are considered as working within the households in which they fulfil their functions. On the other hand, unlike men, women do not show an effectively high rate of participation at the younger ages, which has therefore not prevented them from attending school. One would therefore have to think that, besides educating themselves and working, women engage in other tasks, which are not considered in traditional definitions, but which it is imperative

to understand in order to analyse their use of time. We need to become familiar with all the functions fulfilled by women within households at the different levels. This will undoubtedly shed light on the compatibility of these activities with fertility levels, the propensity to migrate and the aspects which have an influence on family subsistence.

The need to consider the family as a unit in which decisions pertaining to survival strategies are made, including work in the traditional sense, a series of household chores which are not seen as work and family rest, implies that it is not possible to analyse economic participation at these levels as a dichotomous decision between opting for work or rest, but as an option between the three elements mentioned. The way in which participation by the various family members is taken into account in these uses of time provides a basis for analysing the importance of children and household size in this strategy. Reproduction or fertility decisions should be analysed within each context.

#### *4. Informality and life cycle*

##### *a) The situation of men*

Informality is measured as the percentage of working persons engaged in lagging sectors of the economy (informal urban sector and traditional rural sector). Using this criterion, a much greater proportion of working members of indigent households is registered in the informal sector than in poor and non-poor households for the four regions and the two countries analysed in table 5. In main urban Guatemala, seven out of every five working members of indigent households participate in the informal urban sector, as compared with only four in non-indigent poor households, and three in non-poor households. A similar pattern occurs in the remaining urban and rural areas of Guatemala, as well as in the main urban areas of Honduras. However, in the other regions, participation in the informal sector by working men from non-indigent poor and non-poor households is similar.

Throughout their life cycle, men's participation in the informal sector is U-shaped. This sector employs a high proportion of male youths. Subsequently, employment drops

between the ages of 15 and 49 and again rises at age 50 and over. This pattern is similar for the three regions and two countries as observed in table 5. The informal sector is thus a sector in which generally male youths and to a greater extent elderly persons work. Greater access to modern work by men occurs at their more productive ages (15 to 49).

##### *b) The situation of women*

The situation of women is quite different regardless of age and socioeconomic level. There is a much greater proportion of working women than men employed in the informal urban and traditional rural sectors. For women from non-poor households these rates are also U-shaped throughout their life cycle. This pattern repeats itself for the main urban areas in Honduras and at the other two levels in Guatemala. However, both in the remaining urban and in the rural area of Guatemala women's participation in informal work is quite irregular compared to that at the other two levels. In any case, in these two areas participation rates in informal work are always over 60% (domestic service included).

Women's activity in the informal sector thus emerges as an important variable for analysing their contribution to the family's and the community's economic activity. Any policy wishing to have an effect on women through their work must necessarily be implemented in the informal urban and traditional rural sectors, especially in the areas that lag the most, i.e., the remaining urban of Guatemala and Honduras and the rural area of Guatemala.

#### *5. Life cycle and head of household*

This variable does not appear to discriminate significantly either by social level or by region in the case of men. They are the ones who, for the majority, are heads of household, particularly from ages 25 to 49. With the exception of the rural area of Guatemala, no major participation of youths is observed as heads of household. In general, men's participation as heads of household is more than triple that of women in nearly all age groups. However, in main urban areas, the role of head of household among the elderly begins to fall upon older women. No clear pattern has been established among women by level or by region.

## IV

## Conclusions and recommendations

1. *Population and development*

Population policy cannot be devised by falling back upon simplistic mechanisms of fertility regulation. Activities designed to control population should be linked to development efforts and to the impact they might have on the population's standard of living, which will in turn determine the success or failure of population policy. Population and development policy requires that development of the population be comprehensive, with family planning programmes being only one component within a much broader range of development activities.

For their part, the limitations of development possibilities do not lie only in rapid population growth, but also in the political and economic conditions that develop in a country. Within a context of war and strife, it is essential that resources be allocated to both development of the population and the economy as well as to the defence of the nation. In countries where, for various reasons, resources have been limited, economic growth has been slow and there has been little improvement in the standard of living. This has accelerated the already rapid population growth. Thus a vicious circle of poverty is created through its intergenerational transfer, boosted by the demographic increase.

Each country's problems with the exterior are at the centre of their possibilities of reducing population growth. Countries today show declines in terms of trade prices, which impoverishes them *vis-à-vis* the rest of the world, and imposes a series of international economic demands upon them which imply resource transfers abroad instead of affluence to improve development conditions and standard of living. In this sense, the population problems of Central American Isthmus countries should be viewed within both the national and international context.

2. *Population and standard of living*

However, it is not enough to have resources available for accelerating the economic growth of our countries. It is necessary to complement this growth with programmes directed at easing poverty and promoting social development. Various initiatives should be developed in order to succeed in reducing the percentage of families that are below the poverty line. Some important variables on which it is necessary to act are as follows:

a) The implementation of nutritional programmes for new-born babies and children, as well as supplementary nourishment for pregnant and nursing women. This would result in an improved standard of living of this population, a reduction in infant mortality and an increase in children's survival, as well as better health for mothers.

b) Greater attention to school attendance by men and women, regardless of social level and region in which they live, i.e., to improve equal opportunities for education.

c) The organization of men and women to better prepare them for participating in the labour market under equal conditions. Not only is it necessary to highlight the traditional elements of wage improvement and employment, thanks to training and skill-upgrading for working in the modern sector of the economy, but also, to a much greater extent, programmes intended to improve activities such as self-employment, the organization of co-operatives and greater control over economic assets, as well as the generation of employment through work in the informal sector of the economy.

3. *Population and structural heterogeneity*

There is no homogeneity among different regions and socioeconomic levels of Isthmus countries. A preliminary perusal, differentiating between populations in rural, remaining urban

and main urban areas, has shown that the relation between demographic variables and development varies very markedly depending on the context in which they are analysed. Cross-sections by region are significant, but they should also be undertaken by socioeconomic status of the population under study. Data analysed in this study show that, while poorer sections of the population are still found at the preliminary stages of demographic transition, those at more affluent levels are found at an advanced stage. The population problem does not translate into homogeneous parameters throughout the territories of these countries, but rather their averages reflect situations which do not occur at any of the levels being analysed. There are immense variations from one region to another and from one socioeconomic level to another.

In defining population and development policies and actions, a first conclusion which emerges is that family planning measures should be part of a development process and not constitute a programme independent of the process. Consequently, international assistance for population programmes must be related to other development action or programmes for these countries. In order to achieve comprehensive development of the population of Central American Isthmus countries, an in-depth knowledge will be required of development processes, of which population policies are a very important component.

On the other hand, and as a second conclusion, it should be pointed out that population programmes with initiatives intended to modify fertility or mortality rates cannot be applied across-the-board for each country and for all socioeconomic levels. Consequently, it is essential to set targets for population programmes in quantitative terms and above all on the basis of differences in impact that various development and population programmes may have on regional or socioeconomic (and also ethnic) groups.

It is essential to divide each country into homogeneous units in terms of the parameters we wish to modify with our policy, in order to adapt policies and programmes to the specific characteristics of the different areas of the country. Within these areas it is essential to advance in the definition of specific needs of the various socioeconomic groups.

#### *4. Population and planning*

The specifics of population policy cannot be centrally determined. Governments may help to create awareness and to make resources available to the population, but success will depend in the end, on the private decision of individuals, couples and families regarding number of children. These individual judgements are influenced to a high degree by local community and neighbourhood values, and cannot be forecast by a central agency unless it is aware of the variables which influence the communities in which these people live.

Consequently, the implementation of population and development programmes requires a high degree of decentralization so that their conception and motivation arise more from within the neighbourhood and community than from an official agency removed from the local environment.

In order to achieve decentralization in population and development programme planning, it is essential to organize the community around its own needs. We believe that the concept of standard of living should be one of the areas of greatest interest among institutions which seek decentralized development in planning. Community participation may prove much more fruitful than a paternalistic and centralized model of population programmes. The chances of this effort being comprehensive will help to co-ordinate the various agencies concerned with the same groups at the receiving end. A comprehensive approach will help to improve the efficiency of the solution to these problems and will reduce policy implementation costs.



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## Development and social change in Sweden

*Villy Bergstrom\**

Two dominant trends may be observed in the modern history of Sweden: first, its capacity to adapt to changes in the international economy, and second, the formation of political coalitions.

The first trend could be the necessary consequence of its size and the resulting dependence on international trade. The second has taken two forms: parliamentary collaboration between political parties and the establishment of "electoral coalitions" around policies which have transcended class interests and appealed to groups outside the Government's support base.

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## I

### Some thoughts on Sweden's modern economic history\*

There is no established theory that completely explains why and how economic growth begins, how a country goes from widespread poverty to well-being, even abundance.

In Sweden, researchers can point to some interesting features of the country's remarkable development in the last century and can identify the typical changes which have taken place in its economic structure during the transition from stagnation to sustained growth.

The decade of the 1880s is usually mentioned as decisive for Sweden's "take-off". At that time, a series of Swedish inventions and —especially, perhaps— the re-working and development of foreign innovations were applied to industrial production. Some examples are skimmers (Alfa Laval), telephones (LM Ericsson), electric motors (ASEA). In many cases, moreover, something unusual occurred —the inventors and innovators were also entrepreneurs, qualities rarely seen in the same person. The entrepreneurial conglomerates that arose at the end of the nineteenth and beginning of the twentieth century still dominate Swedish industry today. The exception is Volvo —the largest enterprise in Sweden— which was founded later.

This was the time when Sweden made enormous capital gains in a short time. Different technical and chemical discoveries made it possible to exploit natural resources which had remained practically untouched until then. The Bessemer or Thomas process allowed the purification of iron ore from the north of Sweden, which was characterized by its high concentration of phosphorus. Paper production based on wood pulp was begun almost at the same time. All of a sudden, phosphorus minerals and forests —resources that Sweden possessed

\*Work presented to the seminar on "Development, democracy and equity: the experience of Sweden and Latin America", jointly organized by ECLAC's Social Development Division and the International Centre of the Swedish Worker Movement and held in Santiago, Chile, 29-31 May 1989.

in enormous quantities—were transformed into economic wealth. As a result, Sweden's terms of trade improved notably.

During the 1870s, almost 70% of the population worked in agriculture. A process of rapid industrialization began in the next decade; a large percentage of the total labour force was employed in industry, a trend which continued up to the mid-1960s.

Sweden has a history of remarkable economic growth. From 1870 onwards, per capita income grew at an annual rate of 2.5%, i.e., 0.5% faster than the United States, Norway and the Federal Republic of Germany. This growth rate is only surpassed by Japan, whose per capita income grew at an annual rate of 2.7%.

Japan and Sweden differ from the other countries mentioned in that they both grew rapidly in the years between the two world wars and after 1945. Many other countries distinguished themselves by growing rapidly in one of those periods, but not in both.

Are there any decisive reasons for this phenomenon? Economic historians have identified some factors that could help explain the successful history of Swedish growth:

a) Between 1850 and 1919, a fourth of the Swedish population—1.2 million people—emigrated, almost exclusively to the United States. Thus, the country was freed from rural poverty

with its sequels of hunger and massive unemployment, and the economic burden on the population employed in agriculture was significantly lightened. The density of capital (amount of capital per inhabitant) as well as the ratio of land per inhabitant rose steeply. Although GNP certainly fell because of the emigration, per capita GNP increased considerably.

b) During the 1880s, international demand, combined with the inventions and innovations already mentioned, gave Sweden enormous wealth. The forests and minerals were developed and became much more valuable than the petroleum deposits in the North Sea were for the United Kingdom and Norway during the 1960s and 1970s. This brought about the already mentioned improvement in the terms of trade.

c) Sweden stayed out of both world wars. It kept its productive apparatus intact and was able—after those conflagrations—to produce in order to meet an inexhaustible demand during the respective reconstruction periods. The density of capital remained relatively high.

d) Unlike other countries, Sweden established as priority objectives—through its economic policy—a high level of employment and a high use of installed capacity, thus avoiding sharp and prolonged depressions. The deep and lengthy depression of the 1930s, which had disastrous effects on the economy of the United

Table 1

## SECTORAL CONTRIBUTION TO THE GNP

(Percentages)

Periods	Agriculture	Industry and construction	Trade and transport	Public administration	Other	Total
1896-1900	28	27	28	3	14	100
1926-1930	14	40	30	5	11	100
1951-1955	9	49	25	7	10	100

Years	Agriculture	Industry	Construction	Trade	Public administration	Other	Total
1955	10	31	10	10	10	25	100
1965	6	31	11	11	13	27	100
1975	5	30	8	13	20	25	100
1987	3	24	7	13	23	29	100

Source: Osten Johansson, 1967, *The Gross Domestic Product of Sweden and its Composition 1961-1965*, Stockholm, SCB, Nationalrevisionsverket (Central Bureau of Statistics, National Accounts); Willi Bergström, 1969, *Den ekonomiska politiken i Sverige och dess verkningar* (Economic policy in Sweden and its effects).

States, followed a much more moderate trend in Sweden, thanks to the application of a successful economic policy. In this way, both GNP and per capita GNP have been maintained at levels higher than those of many other countries.

To sum up, to succeed a country must accumulate capital, avoid wars and maintain a high and stable level of employment.

We can also add —keeping in mind the pioneer era at the end of last century— that it is to a country's advantage to conduct a bold and extensive campaign of industrial "spying" abroad. Frankly, this explains many of Sweden's industrial successes from the beginning.

To tell the truth, it should also be pointed out that Sweden avoided to a large extent the heavy burden of external debt contracted at the end of last century. From the outset, it took out large foreign loans to finance investments in the hydroelectric sector and in the construction of its network of railroads. These loans were paid throughout the 1920s with currencies highly devalued by inflation, so that large external indebtedness never became a significant economic burden for the country's economy.

This somewhat brief account can be substantiated by a study of the national accounts (table 1).

The table shows that the contribution of agriculture and timber to GNP dropped from close to 30% at the end of last century to barely 10% in the middle of this century, and only 3% in 1987. Industry and construction developed in

the opposite direction, with a contribution to GNP which rose from 27% at the end of last century to 50% in the 1950s, reaching its high point in the mid-1960s and then diminishing. Public administration has risen continuously from 3% at the beginning of the century to 23% in 1987.

Exports —considered as percentage of GNP— remained around 20% in the first half of the century, only to then reach some 37% in 1987. Also considered as percentage of GNP, investments have risen constantly from the end of last century to the mid- 1960s, reaching a maximum level of 27% in 1965. The mid-1970s saw the beginning of one of the worse crises in the industrial history of Sweden. It lasted up to the early 1980s. Investments fell at that time to 22% of GNP, a level where they have remained up till today (table 2).

Table 2

#### EXPORTS AND GROSS FIXED-CAPITAL INVESTMENT AS PERCENTAGE OF GNP

	Exports	Gross fixed-capital investment
1900	19	12
1930	12	14
1955	24	22
1965	24	27
1975	31	23
1987	37	22

Source: Table 1.

## II

### A new political structure

Industrialization created a working class and also launched an enormous migration from the countryside to the city. The urban population was only 13% in 1870. It reached 30% in 1920. This emptying of the countryside was the basis for the political and trade-union development of the worker movement. The constitution of the worker movement was largely a local process. The same people who organized the worker

communes and youth clubs were also members of the trade unions. The Social Democratic Worker Party of Sweden (SAP) was founded in April 1889, exactly 100 years ago. In the beginning, the central organization of the party also became the central organization of the trade-union movement. This situation was maintained for nine years, until the workers created their own trade-union organization in

1989, the General Confederation of Workers of Sweden (LO). The nucleus of social democracy was made up of the members of the trade-union clubs, collectively associated with the party.

The local character of the process of forming the party gave it a degree of stability and strength that contrasts with the experience of relatively successful modern parties, like the socialist parties of France and Greece. These were very vulnerable, because they were formed by a small number of people, and from above instead of from the grass roots. More than authentic mass movements, those parties were an organic instrument at the service of ambitious politicians.

Furthermore, the Swedish trade-union movement managed to avoid political divisions, while the question of religion was never a problem. The great strike of 1909 led to a defeat and weakened the movement for several years. After this experience, the trade-union movement as a whole became rather cautious in using the strike as a political instrument, although there were frequent "little strikes" on the federation level. With some exaggeration, we can affirm that after the war, the trade-union movement almost never struck only for wages; apparently, it will only strike when questions of principle are at stake.

This situation tends toward a certain softness, owing to the strong growth in recent decades of trade-union organizations of government employees and other employee organizations, which allows them to compete with worker unions on certain levels of the wage scale. At the same time, more recently created trade-unions lack a long tradition of trade-union experience. In this sense, we can speak of a tendency to weaken the so-called Swedish model, due to the fragmentation of the trade-union movement.

In the "revolutionary" years of 1917-1918, the party faced a situation of internal struggle about the question of democracy. The unity and strength of the trade-union movement, along with the experience of the great strike of 1909, helped the reform leadership maintain control of most of the party. Another contributing factor was the previous collaboration of the party with the Liberals in the struggle to achieve political democracy. Hjalmar Branting, the first head of the Social Democratic Party, had been elected to the Parliament on a Liberal ticket, since the workers did not have the right to vote at that time. This was the first parliamentary representation in the history of the party.

### III

## The ideological tradition

Swedish social democracy and the worker movement have never been distinguished as creators of theory. At the beginning, many ideas and programmes were taken over from Germany. By way of example, the 1920 programme developed a rather dependent Marxism, which remained formally in place up to 1944. According to that programme, all of society's problems would be solved once private property was eliminated. The economy would be more efficient, the "good things of life" would be justly distributed, and productive resources would always be put to full use, with no periods of unemployment.

But very soon social democracy took over the government. In 1920, the only exclusively social democratic prime ministry in the world assumed control. The unilateral and simple content of the party's programme was naturally a big help during the profound crisis of 1920-1921. With the succession of several social democratic governments, it became clear that in the field of political practice, social democracy was reduced to applying the traditional monetary and fiscal policies, not unlike those that the progressive bourgeois sectors could have promoted. It is pertinent to note, however, that the social democratic governments of the 1920s were minority

governments, with limited possibilities of carrying out an independent policy.

However, the trade-union movement was growing in power, and the working class was gradually becoming involved in political activities. Mobilization did not come quickly. The working class still voted less frequently than the more wealthy social classes, although it was gradually improving. The party had the capacity to attract highly-talented personalities to its ranks. It conducted a very intense ideological discussion in its reviews and theoretical books; as a result dogmatic Marxism lost its influence in favour of an action-oriented pragmatism, which sought to raise the standard of living, achieve greater social equality and struggle against unemployment. It is difficult to exaggerate the negative importance of the project to raise the inheritance tax presented in Parliament in 1928. That motion, inspired by questions of principle, was the basis of a violent attack launched by the bourgeoisie against social democracy and interrupted the sustained trend in the electoral progress of that party. The project lacked a real base in daily life, and the workers therefore did not appreciate how such a measure could help to improve their living conditions. It was a lesson that profoundly marked the party's action for the rest of the period between both world wars. To be successful, a policy must be perceived as relevant to practical living conditions. Lines of action based exclusively on questions of principle and lacking a direct connection with the daily problems of people can lead to tremendous political defeats. (A similar experience occurred in 1976, when the party lost power, at the time of a violent attack by the bourgeoisie against the "wage-earners' funds", a proposal that the common citizen would have a hard time considering especially important.)

A formal battle broke out in the party in Congress in 1932, when the decision was taken to abandon the policy of socialization —the official orientation of the 1920s— as the party's basic line of action. It was replaced by some ideas on economic planning, and the question of the ownership of the means of production was de-emphasized. It should be pointed out, in any case, that when they spoke of economic planning at that time, it was not much more than what today is called Keynesian stabilization policy. Never-

theless, it was quite advanced for those times. Different Swedish economists —Liberals like Bertil Ohlin, and Social Democrats like Gunnar Myrdal and Erik Lindahl —played a pioneering role in all this. Erik Wigforss —at that time the most important intellectual of the Social Democratic Party— independently assumed the new flow of ideas, and Sweden became "Keynesian" four years before the publication of the *General Theory*.

The party began its long period in government with the electoral victory of 1932, once the crisis of 1928 was overcome.

Later historical research has shown that the new ideas on fiscal policy —characterized by the use of budget deficits in times of recession as a means of counteracting a decline of activity in the private sector— were of course "revolutionary", but their real quantitative effect was not too great. What was genuinely relevant for a relatively successful short-term policy applied in Sweden during the crisis of the 1930s was a sharp depreciation of the krona, which basically happened by chance. Strictly speaking, this measure saved Sweden in the economic crises of 1931, 1949 and 1982. On all those occasions, the country's situation was unique. This was possible because of its small size, which meant that as important as success in exporting was for Sweden, quantitatively speaking, it was unimportant in the total volume of international trade.

An important element in the social democratic strategy from 1932 onward was the formation of coalitions —with different degrees of formality. Already before the full establishment of political democracy, the Social Democrats had collaborated with the Liberals, precisely on this question. In that year the Parliamentary majority needed to form the government was ensured by the Social Democrats' acceptance of a protectionist policy for agriculture. In response, the farmers' party supported the new fiscal and labour-market policies in Parliament. This strategy of collaboration had been prepared beforehand. Already in 1930, while the party was still in opposition, a project had been worked out to relieve the situation of misery among workers and farmers. Almost identical sums of money were proposed as credits for farmers and aid for

workers in the labour market. From that time and almost permanently, the Social Democrats have sought the support of some bourgeois party to approve the important reforms proposed by the party. Collaboration with the farmers was through Parliament and even in coalition governments. Sweden had no social class of large landholders playing a political role. Farmers practised a family-style agriculture and lived in social conditions similar in many ways to those of the working class.

After the war, the lower middle class and the farmers supported the creation of a general system of medical insurance and more widespread schooling. This is an example of the electoral coalitions mentioned above. It would seem that the lower levels of the employee sectors lent their support to the worker movement to set up the pension system of the services at the end of the 1950s —another example of electoral coali-

tion. The exception was the above-mentioned question of the "wage-earners' funds", i.e., the creation of a system of capital funds by shares, owned collectively by wage-earners and financed by dues on wages and income tax. On that question, the Social Democrats failed to form an electoral coalition, and the results are well known. This project contributed to the Social Democrats' loss of power in 1976.

It should be pointed out that collective funds many times superior were created in relation to the establishment of the additional pension system (ATP). Also at that time —at the end of the 1950s— there was a violent political battle over the "socialist funds". However, the Swedish worker movement managed to win that battle, because the creation of the collective capital funds was organically linked to a social reform with much wider support: the subsistence of all citizens in their old age.

## IV

### The policy developed

Already in 1930, the party had united around a line of action. The State would generate employment, through the expansion of policy to the labour market, which would be financed with public indebtedness. On the level of social policy, transfers to households would attempt to alleviate poverty in different ways among workers and farmers. The theoretical scaffolding of the Stockholm School —an early variant of "Keynesianism"— was the work within the party of, among others, Gunnar Myrdal and Ernst Wigforss.

In practice, the ideology of socialization had been abandoned and replaced by a kind of ideology of planning. Instead of socializing *capital stock*, a long period was begun of socializing *income flows*, with the aim of producing a range of living conditions different from those produced by the free play of market forces. This is reflected in the coefficient of taxes, which has risen constantly since 1930, as well as in the increase in public expenditures for consumption and transfers (see table 3).

The objective of public expenditures for consumption was distribution. With the slogan "Only the best is good enough for the people", it was proposed that health care and education should also be provided and administered by the

Table 3

#### TRANSFERS TO HOUSEHOLDS, PUBLIC EXPENDITURE FOR CONSUMPTION AND INVESTMENT, AND TOTAL TAXES, AS PERCENTAGES OF GNP

Years	Transfers to households	Public expenditures for consumption and investment	Total taxes
	GNP	GNP	GNP
1950	6	15	21
1960	8	20	29
1970	11	28	41
1980	18	33	49
1987	19	30	55

Source: Table 1.



public sector for the benefit of the population as a whole; that the quality of these services should be sufficiently high to gain the approval of the middle classes; that the State should not be concerned only about the poor; and that private services could also be provided to meet the demand of the middle and upper classes.

With this plan, the different groups of citizens would receive something for their taxes. In this way, high taxes would be more acceptable than if the middle classes had to pay taxes to provide different services and a social safety net to the poorer sectors of society. This ideological foundation still exists in the welfare society and it has probably contributed to the fact that the Swedes, in spite of everything, have accepted the highest taxes in the world.

This social democratic policy has been heavily attacked on several occasions. It has been called a vicious circle, where everybody pays taxes first, and then has them given back in the form of pensions, allowances for children, housing subsidies, etc. Nevertheless, the Social Democratic Party has maintained its conviction about this policy, originally formulated by Gustav Möller in the mid-1930s.

Table 3 shows the evolution of taxes, transfers to households, as well as public expenditures for consumption and investment. The growing degree of socialization of social income also is clearly shown. The coefficient of taxation has risen from 20% in 1950 to 55% in 1987. Transfers rose from 6% of GNP in 1950 to almost 20% in 1987, while public expenditure grew in the same period from 15% to 30%. At the same time, however, around 90% of the productive apparatus remained in private hands.

### 1. Corporate taxes

Corporate taxes have been a peculiarity of Swedish development since the end of the 1930s. The nominal rate of taxes on earnings has been high, between 40% and 55%. However, enterprises have been allowed to deduct capital investments from their taxes, which have far surpassed the amount corresponding to wear and depreciation. In the same way, the rules for assessing inventory have been very generous. This has made it possible for enterprises—through investments and capital accumulation—to create a level of

deductions which has allowed them to reduce their effective tax base. Thus, recently, for example, the nominal tax rate on earnings has been above 50%, while the real level has varied from 10% to 35%. This system of corporate taxes has stimulated capital investment and provides a powerful incentive to "sow" earnings by investing, which at the same time makes it possible to lower tax payments. When enterprises decide to pass along earnings in the form of dividends to shareholders they are counted as additional income, which means that in the end between 70% and 85% of those dividends must be paid as a marginal tax. This system has greatly stimulated economic growth, which is why it has remained in place for so long.

### 2. Labour-market policy

Gösta Rehn, one of the authors of the Swedish labour-market policy, is participating in the seminar and is going to speak on this subject. I would only like to point out that the wage-earners of Sweden have always had a relatively positive attitude towards structural changes in the productive apparatus and the redistribution of resources from low-productivity sectors to high-productivity sectors. Table 1 illustrates the structural changes recorded.

In many other countries, the working class has opposed technological changes and modifications of the structure. Similar attitudes are also found in Sweden, but they have never been a real obstacle to the renovation of the productive apparatus. This is partially due to the policy applied in the labour market. Re-education, transfer allowances, relocation of the labour force, along with the creation of temporary work, have been the usual ingredients of this policy. Sweden provides more resources for this active labour-market policy than any other industrialized country, which has certainly contributed to a higher degree of acceptance of structural changes and technological renovation. Even more important, however, has been the fact that the Swedish working class has known since 1932 that the Government's top priority has been the goal of full employment. On the contrary, between 1976 and 1982, structural renovation was resisted, precisely when the econ-

omy was in crisis and unemployment was increasing. It is difficult to exaggerate the importance of an economic policy that gives priority to full employment. It creates security, even in periods of change.

Finally, we should point out how the wage policy of the trade-union movement has combined with the labour-market policy and reinforced the tendency to stimulate capital accumulation, as mentioned with respect to corporate taxes. The trade-union movement, and especially the General Confederation of Workers of Sweden (LO) —which organizes workers and other manual labourers— maintains the principle of "a policy of wage solidarity". Originally this meant "equal work, equal pay", independently of individual enterprises' level of earnings and capacity to pay wages. A

policy like this speeds up the process of change, since it does not allow inefficient enterprises to survive by paying low wages.

Later the expression "policy of wage solidarity" represented the efforts made by the trade-union movement to raise the level of lower wages, and the practice of a moderated ambition with respect to raising higher wages. This policy helped eliminate the more inefficient enterprises, while the more efficient ones can reach a high level of earnings and experience rapid growth, thanks to moderate wage demands and the benefits obtained from the tax policy. Different scientific investigations of the wage structure unanimously stress the great importance of the trade-union movement's wage policy and agree that the practical effects of that policy have been basically consistent with its intentions.

## V

### Conclusions

The observations formulated about the economic history of contemporary Sweden could be summarized in two main characteristics:

a) Exports have been the dynamic factor of economic growth in Sweden, with a productive apparatus faced with growing international competition. Exports have generated the resources needed for financing the considerable growth of the public sector.

b) Sweden has had a democratic régime since the 1920s. Democracy was attained peacefully. Thanks to it, social peace and a broad consensus in the citizenry have been preserved, which were also facilitated by the ethnic, political and religious homogeneity of the Swedish people.

## Guidelines for contributors to *CEPAL Review*

The editorial board of the Review are always interested in encouraging the publication of articles which analyse the economic and social development of Latin America and the Caribbean. With this in mind, and in order to facilitate the presentation, consideration and publication of papers, they have prepared the following information and suggestions to serve as a guide to future contributors.

— The submission of an article assumes an undertaking by the author not to submit it simultaneously to other periodical publications.

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## Recent ECLAC publications

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This publication is the final and complete version of the *Economic Survey*, for 1988, which appeared in various fascicles during 1989. It is divided into two parts: part one deals with recent economic trends for the region as a whole and part two with those for each country.

Part one provides first an overview of the current situation and the international context. It then outlines recent economic trends and analyses in greater detail the evolution of the main sectors, total supply and demand, inflation, employment and unemployment, wages and salaries, the external sector and the external debt, transfer of resources and the inflationary process. Part one concludes with a section on recent economic trends in the Caribbean in 1988.

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**Industrial restructuring and technological change: consequences for Latin America (LC/G.1493/Rev.1-P)** Estudios e Informes de la CEPAL (ECLAC Studies and Reports) No. 74, Santiago, Chile, November 1989, 105 p.

This publication brings together three articles on the subject.

The first, "World technological transformation and its consequences for Latin America and the Caribbean", analyses new technology and its development process; the structural impact of new technological patterns; the effects on comparative advantages and the international division of labour; the technological challenges facing Latin America and the Caribbean; and lastly, elements for a regional strategic agenda on technology.

The second article is by various Brazilian authors from the Universidad Estadual de Campiñas, and is entitled "Industrial restructuring in developed countries and its consequences for Latin America". The study analyses the spread of technology diffusion and the restructuring of developed countries. It goes on to analyse the consequences of this restructuring for Latin America and the role of industrial policy, with a special paragraph on the case of Brazil.

The third article is a study by Jorge Katz entitled "Theory of technological change and its adaptation to the case of newly industrializing countries".

This study attempts to build a relatively simple theoretical framework for the exploration of the rate, nature and consequences of technological change in a newly indus-

trializing society such as Argentina, which is on the fringes of international technology, which incorporates technological changes originating primarily abroad and which, in order to do so, must first submit the foreign technology to a process of adaptation to the local conditions governing its use. This process almost always presupposes a dialectic situation in which both the receiving society and the imported technology—whether it involves products, processes or organization and work methods—are substantially modified. This leads to the emergence of social production forms that are different to those existing locally but that are also different to those seen in developed countries where the package of technical knowledge transferred originated. The neoclassical metaphor, off-the-shelf technology, which means technology ready to be used as is, accompanied by detailed and easy-to-understand instructions for each economic agent of the developing countries, is seen as being very utopian and decidedly weak as an analytical basis on which to build a theory of technological change that is useful for the needs of those countries.

Section 1 of this study provides an overview of the evolution of theory on technological change in recent decades. Section 2 goes on to explain the basic guidelines for a simple conceptual model, which would facilitate the study of the microeconomic and macroeconomic determinants of technological change in countries of intermediate development. This conceptual model is based on the past experiences of a large number of companies, both local and from other Latin American countries, in particular Brazil and Mexico, taken on an individual basis. Thus, instead of following a deductive route, based on premises of intertemporal equilibrium, presupposing the existence of perfect information and markets that function adequately without adaptation lag-times or costs, the intention here is to follow the reverse route, based on reconstruction over time of the technological performance of a more or less significant list of Latin American industrial enterprises. This reconstruction would show on what bases and under what assumptions it would be appropriate to develop theoretical thinking, if what we aim at is to understand, albeit in general terms, the technological performance of a "typical" industrial enterprise in our economic scenario, instead of following the opposite route proposed by neoclassic logic, where a logical structure is based on premises, that may approximate the reality of a mature society but can hardly be applied to the Latin American context.

**Performance of transnational banks and the international debt crisis (LC/G.1553/Rev.1-P)** ECLAC Studies and Reports, No. 76, Santiago, Chile: July 1989, 214 p.

This study served as a basis for the article "Performance of creditor banks of Latin America", by Michael Mortimore, published in the *Revista de la CEPAL (ECLAC Review)* No. 37, April 1989. The objective of this research project, without underestimating the importance of debtor country policies or of the adverse international economic situation in causing the international debt crisis, was to focus on another major causal factor which has been less analysed: the performance of transnational banks. To this end, the author studied the performance of these banks in

the handling and management of the external debt crisis of the region, within the framework of the Interregional Project on Transnational Banks undertaken by the United Nations Centre on Multinational Corporations, whose executing agency was the Joint ECLAC/CTC Unit on Transnational Corporations. In this way an attempt is made to seek a more thorough understanding of the set of factors which determined the origin and development of the crisis.

**International regular transport industry and foreign trade competitiveness of Latin American and Caribbean countries (LC/G.575-P) Cuadernos de La CEPAL (ECLAC Notes) No. 64, Santiago, Chile: November 1989, 132 p.**

The regular maritime transport of containers is part of a varied group of activities that supports international trade and includes not only shipping and ports but also land transport and a series of other services such as customs and domestic cargo terminals. The integration of these activities was always a theoretical possibility, but there were numerous market, service, technological and legal restrictions which stood in the way. The elimination of these restrictions has brought about a structural transformation of the industry.

The computerized processing of information and the electronic exchange of data will have the same impact as containers on the regular transport industry. They will permit the integration of all activities on a trade route so that distribution systems may be created. Growing use of contractual arrangements in regular maritime transport will allow manufacturers to view transport as part of their purchasing, marketing and stock departments.

Approximately 90% of the world's inhabitants live in the northern hemisphere, which also possesses 95% of the world's industrial capacity and 95% of its purchasing power. The importance of northern man in planning and policy-setting by the regular transport industry has to do not only with the place where he lives but also with what he produces and consumes. World trade in manufactures is dominated by the developed countries to the point where 61% of the trade of these products is carried out between them.

In order for a country to maintain its traditional markets and create new ones and to expand and diversify its exports, it has to rely on transport services that are competitive with those of other countries supplying the same products.

Changes in economic geography whereby distances between markets are shortened, freight costs are reduced and transport efficiency is increased will have consequences for both trade and transportation. It was the development of the main interoceanic routes, the land bridges, the tunnels and ports that brought this about. In the future the completion of numerous tunnels and international bridges will permit regular carriers to make less use of ports of call

and intensify use of land transport systems, which will lead to greater efficiency in the use of distribution systems.

Port, ocean and land transport policies that belong to the era of general cargo must be adapted to the trading and practical realities of today. The export-oriented nature of macroeconomic policies has led cargo reserve policies to become subordinate to the needs of the external sector. With the globalization of world economy, port costs and national land transport have come to have major direct repercussions on the foreign trade of a nation. Since freight rates account for up to 40% of the CIF value (cost insurance freight) of goods transported, regular maritime transport, ports and land transport possess numerous "support mechanisms", such as cost control and route selection, frequencies and appropriate technology, which may make an important contribution to achieving macroeconomic objectives.

The growing use of containers, computers, satellite communications and intermodal distribution systems is a permanent rather than transitory feature and constitutes a new economic basis for port activities and maritime and land transportation. Export-oriented macroeconomic policies demand the use of these factors in order to co-ordinate distribution-chain activities as a means of strengthening the capacity of the products involved to compete in international markets. In order for countries in the ECLAC region to obtain sufficient volumes of cargo to justify establishing intermodal systems of economies of scale at each link of the distribution chain, the possibility of integrating their trade flows has to be studied.

The need for all Latin American and Caribbean countries to strengthen the competitiveness of their exports takes precedence over any difference that may exist in their maritime transportation policies. Regulations dating back to the turn of the century and even to colonial times, must be updated and reconciled in order to create a new competitive base.

In formulating a co-ordinated policy to establish a new structure of ports and maritime and land transport in Latin America and the Caribbean, countries of the region have to study the possibility of integrating their cargo bases, strengthening their participation in extraregional shipping consortia and form such consortia for their regional trade, using technology that will provide economies of scale and exploiting intermodal networks. Likewise, they have to improve support systems such as customs, and facilitate commercial and transport procedures and documentation. The object of these efforts is to maximize the contribution by ports and land and maritime transportation to macroeconomic policies and to the economic security of each country. Without a co-ordinated policy on ports and maritime and land transport, the Latin American and Caribbean countries run the risk of limiting their role in regular maritime transport to minority participation in extraregional consortia or merely to rendering liaison services to ports where cargo will be transhipped on to larger carriers and to rendering land transport services within the region.



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