

REPORT OF THE EXECUTIVE SECRETARY  
TO THE EIGHTEENTH SESSION  
OF THE COMMISSION

(La Paz, Bolivia, 18-26 April 1979)



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## INTRODUCTION

Once again I have the honour and the privilege of addressing this plenary to submit for the consideration of the member governments of CEPAL the report of the Executive Secretariat to the eighteenth session of the Commission, here in the hospitable city of La Paz.

As on other occasions, I should like to take this opportunity to express some thoughts on the economic and social situation of the region, in the light of our observation of the many diverse facets of Latin American reality.

This meeting is taking place at a special moment in our history, as one decade draws to a close and another dawns. These moments of transition have a particular attraction in the historical evolution of our societies, for they are suitable occasions for exercises of introspection which enable us, as we look at the recent past, to put forward some hypotheses concerning the major problems and challenges which will face us in the 1980s. An exercise of this kind is particularly timely and necessary at a moment when the governments of the region must turn to the task of laying the foundations of what is to be the international development strategy for the forthcoming decade, to be discussed by the United Nations General Assembly in 1980.

This kind of analysis, however, is inherently fraught with difficulties, for obvious reasons. In the first place, we are living today under the sign of change and uncertainty in all spheres. This is clearly visible in the international economic situation and the violent changes in the political, economic and social settings which affect the very values on which we believed that post-war civilization was firmly based. These changes transcend the confines of the economy, and call into question in various ways man's present and continued existence on this planet.

Furthermore, the growing interdependence among the nations of the globe - another sign of our times - means that no-one can escape the effects of these changes, and our region has certainly felt their impact especially strongly. One thing is sure, namely that following a period of extraordinary prosperity and confidence in a stable future, which began some thirty years ago, we have entered a dangerous period in which feelings of insecurity and anxiety about the future prevail at every level.

It is therefore a hazardous business to venture on hypotheses about the probable course of future events. All forecasts which go beyond the short term may become quite unrealistic very shortly after being formulated.

It is equally difficult to formulate hypotheses about the future of Latin America, again for a number of reasons. Perhaps the most important of these is the course followed by the world economy, which has such a direct effect on the development of the countries of the region. Equally important are the great changes which have taken place in Latin America in recent years. New political situations, new economic experiences and new social factors have emerged, revealing profound changes which in many respects are often in keeping with those which have occurred at the world level.

This has meant that the common traits of the region have been overlaid by increasingly clear and unmitigated disparities between some of our countries, stemming partly from their varying geographic and demographic size, their different economic and social structures, or the particular way in which they are linked with the world economy. This explains why, despite the common denominators, it is more difficult now than previously to generalize about the problems of the region. Always risky, such generalizations have now become more dangerous than ever.

Despite these obstacles, however, reflexion about the immediate past and possible future scenarios for the region as a whole is particularly necessary and opportune. The speed with which events are taking place in the modern world often obliges us to give priority to immediate problems. Thus, by force of circumstance, there is a growing tendency at all levels to focus on the short term, a tendency which should be overcome from time to time, however, in order to draw on the wealth of regional experience for guidelines to orient future action.

This, indeed, has been the role of CEPAL over its many years of existence. We therefore feel bound, on occasions such as this, to express our thoughts to the governments of the region - in all honesty, and fully aware of the limitations of the undertaking - in order to let them know our views on the fundamental problems of the day and the great challenges of the approaching decade.

It is in this spirit that I wish to make a number of comments on three major areas of concern:

- Firstly, the main lessons to be learned from the economic and social evolution of the 1970s;

- Secondly, the balance-sheet of the achievements and shortcomings of the process of change observed in the region in recent decades;

- And, finally, what we consider to be the main challenges of the near future.

I. THE 1970s: CULMINATION OF A CYCLE, INTERRUPTION  
AND ADVANCE TOWARDS THE UNKNOWN

A. The slow-down of the 1970s

Anyone looking at the main features of the world economic situation in the 1970s must conclude that the decade will be remembered for two fundamental aspects: the culmination of a cycle of unprecedented progress which began in the 1950s, and the profound change of direction in this trend which occurred in the middle of the 1970s.

If, looking back, the period between 1970 and 1973/1974 represented the euphoric culmination of the post-war cycle of expansion, the succeeding years saw the interruption of that process and the beginning of a stage of substantial adjustments which are still continuing, and whose complexity, intensity and duration make it impossible to discern as yet the nature of the new stage which may take shape after this interregnum.

Some tend to view the 1973 rise in oil prices as the decisive element in this uneven evolution. However, it is important not to exaggerate its importance, or to ignore other significant factors, for in reality this rise in prices was superimposed, in the central economies, on a variety of monetary and financial upheavals which date from the final years of the previous decade, and which emerged clearly in 1971. At that time the embryonic symptoms of "stagflation" had already been diagnosed, and deep thought was being given to the possible consequences of the policies designed to remedy it by decreasing growth rates.<sup>1/</sup> Thus the "oil trauma" should be regarded more as the spark which precipitated and aggravated a worsening situation than as the sole or basic cause of it.

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<sup>1/</sup> See, for example, CEPAL, Economic Survey of Latin America, 197



The fact is that, for a complex set of reasons, significant break took place in a trend of progress and economic growth which had begun two and a half decades previously and which had begun to seem indefinite.

If the problem is viewed from the standpoint of our region, a similar evolution can be identified in the economic field: the culmination of a dynamic cycle of growth in the product at the beginning of the decade, followed by a decline in the expansionary cycle in the second half of the period.

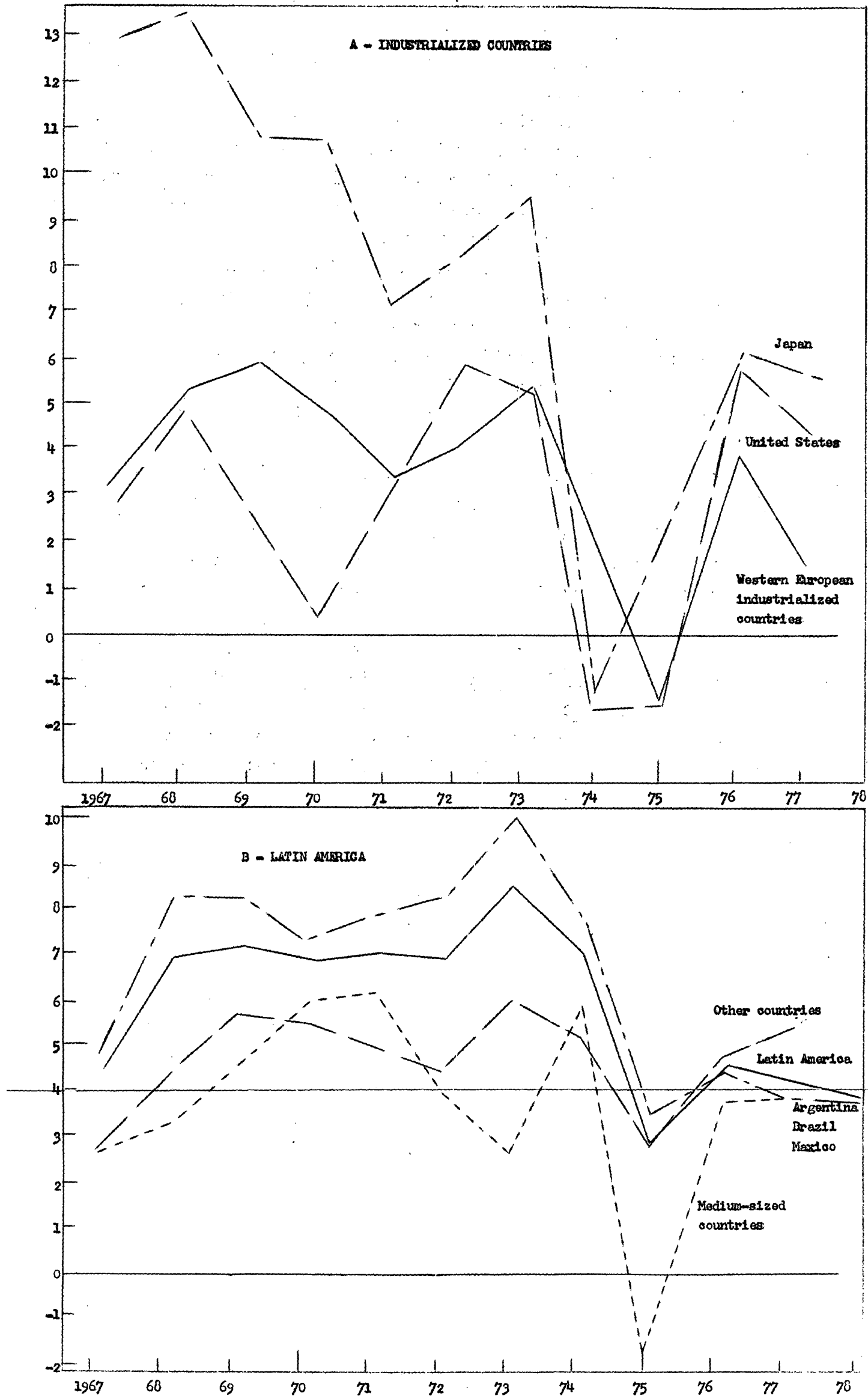
The first essential element in the decline in the region's former buoyant trend was, of course, the performance of the central economies. The document presented to the CEGAN meeting by CEPAL records with startling clarity how growth in the region has followed the ups and downs in the central countries, and particularly the downward tendency starting in 1974 and 1975 (see figure 1).

Notwithstanding slight differences in trajectory, intensity and performance in specific cases - to which I shall refer below - this parallelism confirms the long-standing conception of the reflex character of the cyclical movements on the periphery - a fact which we must not forget in our current discussions on interdependence.

At the same time, one can also see with clarity the impact of the realignment of international prices, and particularly the rise in the price of petroleum. The latter has had very different effects depending on the country in question: so much so that it has necessitated a systematic differentiation between countries which export fuels and the remaining non-fuel-exporting countries - the majority - which have had to face up to different degrees of dependence on imports.

- 6 -  
Figure 1

GROWTH RATES OF THE MAIN INDUSTRIALIZED ECONOMIES AND OF LATIN AMERICA  
(Annual growth of the gross domestic product at constant prices, per cent)



It is worth while emphasizing that the serious problems of the latter have not led to conflicts or animosity vis-à-vis the former, the fundamental reason being that the affected countries have not forgotten two very important aspects of the matter.

Firstly, undoubtedly no primary commodity - in this case non-renewable - had suffered such a damaging deterioration in its price in the post-war period. In fact, as is demonstrated in a recent CEPAL publication, the real price of petroleum dropped by almost half between 1950/1951 and 1973, before it was readjusted.<sup>1/</sup> This process might well be regarded as a clear demonstration of the historical short-sightedness of the traditional policy on raw materials and its consequences. In that context the following statement by the President of the European Economic Community, Mr. Roy Jenkins, is telling:

"For far too long the industrialized world assumed that it had a divine right to indefinite supplies of cheap energy. We seem to be learning from our mistakes, although the learning process is still too slow."<sup>2/</sup>

Secondly, aside from possible reservations concerning the form of the price readjustment and the use made of the increased revenue, the affected countries could not but appreciate the potential implications of joint action in favour of an adequate return for their commodity exports.

Finally, it is also clear that the upsets of the recent period are linked with the very characteristics of national forms of development and the policies adopted to deal with them. Despite the favourable climate for expansion which prevailed until 1973/1974 in Latin America, one cannot forget that even then many countries were encountering serious difficulties and uncertainty concerning the continuation of the process of transformations in production

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<sup>1/</sup> See J.W. Mullen, World oil prices: prospects and implications for energy policy-makers in Latin American oil-deficit countries. Cuadernos de la CEPAL, Santiago, 1978.

<sup>2/</sup> Europe and the Developing World, speech delivered to the Overseas Development Institute in London on 8 March 1979.

and the form of that process, especially as regards its social impact. Although it had specific features in each country, the phenomenon was repeated both in the larger economies and in the medium-sized and smaller economies.

In this way the particular problems posed by the international economic situation were added to the specific problems of each country and were either exacerbated or alleviated depending on the countries' degree of vulnerability and the capacity of national policies to deal with them.

B. The pressures of the conjuncture:  
new faces for old problems

The upheaval of the middle of the decade took place against this background, and economic policies had to add to the traditional challenges the more pressing problems arising from the international economic situation.

Firstly, the countries most affected by the situation were obliged to tackle simultaneously problems on their external accounts, the repercussions of inflation and their depressive consequences for production activity, employment and income distribution. The policies differed according to the countries, but all of them had to take dramatic steps, combining and re-ordering their defensive policies in very different ways. The three-way choice between growth rates, external borrowing and the degree of inflation was as frequent as it was painful, and old problems reappeared which the region thought it had overcome in the euphoria of the beginning of the decade.

Secondly, the countries which benefited from a rise in their foreign currency earnings had to cope with the task of assimilating the additional resources to ensure maximum impact on development and minimum effect on inflation. Their position was more favourable than that of the former, but it undoubtedly put the tools of economic policy to the test.

It would be mistaken to liken this crisis of the mid-1970s to previous crises, for two reasons which, it seems to us, should be underlined with particular emphasis in order to describe the new situation correctly.

(a) The "international financial permissiveness" which, as a result of the unprecedented abundance of financial resources arising from the oil surpluses and the crisis in the industrial centres, made it possible to moderate the effects of the payments imbalances and postpone many of the costs of the adjustment in international prices. Of course, this also led to considerable borrowing, which by the end of 1978 was estimated at about US\$ 100 billion for the region as a whole.

This financial permissiveness was a completely new factor in the historical experience both of the region and the world as a whole. While in most cases the balance-of-payments crisis did not have a dramatic impact on internal development, it did make it necessary to adjust growth rates and incur substantial loans to which we shall refer again below.

(b) The region's "new capacity to defend its interests", which manifested itself in many ways. There is no doubt that vital importance was assumed by the progress achieved in previous decades in the broadening and diversification of the structure of production: that is to say, industrialization in its widest sense. In this regard, and with reference to the countries which best managed to cope with the setbacks produced by the economic situation, a recent report submitted to the Group of 24 points out very correctly that:

"... their capacity for adjustment was substantial because of earlier progress that they had made towards the diversification of the domestic economy in general and of the structure of exports in particular."<sup>1/</sup>

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<sup>1/</sup> UNDP/UNCTAD, The Balance of Payments Adjustment Process in Developing Countries: Report of the Group of Twenty-four, New York, January 1979, p. 6.

On the other hand, due recognition should be given to the high degree of maturity and flexibility achieved by national economic policies as a result of the greater experience accrued in managing the economy at both the public and private levels.

As a result, adjustment policies of greater or lesser scope were introduced in the different countries; a high rate of expansion of exports, particularly non-traditional exports, was maintained; and high levels were attained in trade within Latin America, which functioned as an anti-cyclical factor at a time of weakness in international markets.

No less significant for the region was the marked capacity to secure resources from private financial markets and the continuation of a high rate of direct or foreign investment by the transnational corporations, as is indicated by recent secretariat studies.

The combination of plentiful external financing and the improvement in the defence capacity of the economies meant that although in the majority of the Latin American countries the growth rates of the product decreased, they did not do so as much as might have been expected in view of the crisis in the central economies.

The cost that this implied in terms of indebtedness has already been mentioned, but it was certainly not the only one. In social matters there were large-scale setbacks resulting from the policies of readjustment and also from the rate of inflation, which regained momentum in many countries. Both these types of costs had regressive effects on the poorer sectors and on rates of investment.

C. The external factor conditioning the immediate prospects:  
the evolution of the central economies

It is clear from several points of view that the immediate prospects of the regional situation will be strongly influenced, in the case of the great majority of the countries of the region, by the behaviour of the international economy, which in turn is

basically determined by the behaviour of the central economies, i.e., by the recovery of their growth rate and the attainment of acceptable levels of price stability and equilibrium in their balance of payments.

It would be superfluous on this occasion to attempt to analyse the significance and the projections of the present weak level of activity of the industrialized countries, on the subject of which thousands of pages have been written in recent years. It is, however, both necessary and possible to highlight some aspects of vital interest to our region and to the Third World in general.

Some mistaken analogies have now been dispelled, such as the attempt to characterize the present crisis by evoking the great depression of the 1930s or the assumption made that this crisis was yet another of the transient upsets of the postwar period. Neither is the case.

Instead, the predominant view is that a deep-seated, difficult and lasting readjustment is taking place at the level of the central economies and the relations between them on the one hand and their links with the rest of the world on the other.

As far as the first element is concerned, the contradictory features of this crisis spawned by the economic system of the industrial market economy countries are much in evidence.

In addition to the elements which are common to all crises - decline of private investment, reduction of real rates of profits, increase in unemployment, growth of idle installed capacity - there are others such as active and persistent inflation, which represents a notable contrast to the situations of deflation typical of such conjunctures in the past. The well-known scenario of "stagflation" has created a dilemma which is too much for the Keynesian therapies used to solve the problem on other occasions and routs them completely: any tendency towards growth, in traditional policies, appears to be frustrated by the activation of inflationary pressures, while policies directed at reducing such pressures tend to aggravate the slowing down of production.

Although the disequilibria in the external accounts have played a substantial role in some countries, it is equally true that the same dilemmas also occur in countries with surpluses, and in fact this difference in situations constitutes another of the seemingly insoluble problems raised by the impotence of policies so feverishly pursued or tried out.

What are the options regarding the immediate prospects of the international conjuncture?

Some main options - which are not necessarily mutually exclusive in all aspects - may be deduced from the variety of analyses and opinions on the short- and medium-term prospects of the present situation.

The first is that the situation of the last few years will continue its precarious existence, with recurring ups and downs in the priority assigned to and the successes and failures achieved in the reactivation of growth and the control of inflation and external disequilibria.

The second is that the obstacles to the more rapid growth of the production process and external trade and financial transactions will get worse, opening the way for more clearly restrictive policies and a situation at least resembling that of a traditional or "classical" crisis.

The third possibility - and certainly the most favourable - is that the present crisis will culminate in a transition towards a more favourable scenario in which the central economies will succeed in making the necessary structural and institutional adjustments and that this will facilitate new forms of insertion in external trade and better opportunities for the development of the periphery.

This option reminds us of the lucid definition given by our fondly remembered master, José Medina Echeverría, who said that in the strict etymological sense a crisis should be understood as a certain moment in the evolution of a system which shows



sufficient signs of fluctuation and upheaval to indicate a state of transition, which does not exclude either its strengthening and recovery or its final breakdown and ruin.

Let us adopt the relatively optimistic hypothesis that we are living in a period of readjustments which will later evolve into a broader and more favourable course for the world economy.

It seems reasonable to suppose that even in such a case the transition will involve some years of risks and sacrifices which will be very different for countries of the periphery like those of Latin America. These risks will perhaps be more serious than those experienced in the last part of the present decade, and it is consequently essential to prepare for tackling and overcoming them.

The first risk arises out of the continuing situation of slow growth and persistent inflation in the central countries. This stands in the way of the necessary growth of our exports and makes imports continually more expensive. This general effect becomes worse in proportion as the industrial countries resort to policies which aim at the reduction rather than the necessary expansion of growth and trade through the structural adjustments required in their domestic economies.

In this respect it is of interest to recall some recent statements. At a meeting of the Group of 24 held in March this year, the communiqué issued by the Ministers present "expressed dismay at the proliferation of trade restrictions in the developed countries". Another forum carrying considerable weight - the Interim Committee of the Board of Governors on the International Monetary System - announced that since its last analysis of the world economic situation in September 1978 "there had been some worsening of the prospects for economic growth in the industrial countries, increasing inflation, a slow rate of expansion in international trade and a tendency in some countries to resort to protectionist measures".

These developments in external conditions are already being reflected in the economies of the countries of the region, although with notable differences between one country and another: not only between the oil-exporting countries and the rest but also within each group.

Thus, it can easily be seen that despite the efforts made the deficits on current account still stand at very high levels compared with the beginning of the decade, while there has been a continuous increase in the amounts of indebtedness in respect of indebtedness in respect of private credit, which has constituted the bulk of the net inflow of capital (see table 1).

In global terms, the situation does not appear alarming at this stage in terms of such current relations as the ratio of payments of interest and amortization on the external debt, plus remittances of profits, to the value of exports, but - exceptions apart - it is none the less true that there is good reason to be concerned that these trends may continue.

The second risk is that the relatively abundant supply of external credit cannot be considered a prop on which it will be possible to rely indefinitely. This is so because the copious liquidity of the market and the easy access to it are the result of exceptional conditions which can hardly continue in the future, quite apart from the fact that its terms and costs are frequently not in keeping with the requirements of development financing.

It should therefore be understood that the chances of continued use of international credit by the debtor countries necessarily depend on their ability to rectify the basic imbalances in their external accounts by taking the positive approach of increasing and diversifying their exports rather than by a severe restriction of their purchases abroad.

As is well known, this second option would also harm the industrialized economies by weakening or eliminating one of the factors which have stimulated their shaky economic growth in recent years, namely, the demand stemming from their sales to the periphery.

Table 1

LATIN AMERICA: BALANCE ON CURRENT ACCOUNT AND NET CAPITAL INFLOW  
(Millions of dollars)

	Balance on current account			Net capital inflow		
	1970	1975	1977	1978a/	1970	1975
<u>Latin America</u>	-3 103	-14 046	-10 361	-14 622	4 660	15 011
Oil-exporting countries	-272	2 047	-2 362	-5 034	358	1 041
Non-oil-exporting countries	-2 831	-16 093	-9 588	-9 588	4 302	13 970
						18 015

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

As is well known, this second option would also harm the industrialized economies by eakening or eliminating one of the factors which have stimulated their shaky economic growth in recent years, namely, the demand stemming from their sales to the periphery.

The third risk is the impact of the present situation of the central economies on the region's growth rate and on inflationary pressures, as we pointed out earlier.

While the region is today better able to defend itself than in the past, it would face a much more severe challenge if the restrictive effects stemming from the central economies were to continue for a protracted period.

The picture is even gloomier if one considers the potential inflation. Although in 1977 and 1978 the rate of price increases declined in comparison with the high levels of earlier years, it is nevertheless true that inflation continued to pose difficult problems of control and management in a sizeable number of countries which have considerable weight in the regional total. The picture is therefore very unfavourable as regards the objective of keeping up the growth rate, and in addition it involves sacrifices and social inequalities which hinder the concerted determination on all sides required to advance towards a solution.

## II. THE GREAT CHALLENGES OF THE COMING DECADE

The basic question which emerges as we stand on the threshold of a new decade is what major challenges Latin America will face during the next ten years.

If an adequate answer is to be given to this question, the analysis of the main features of the economic conjuncture in recent years is not enough. A retrospective view is also required, to enable us to make an appraisal of the economic and social evolution of the region in the context of a long-term historical perspective.

This appraisal would lead to the following main conclusions:

1. Since the war, and particularly during the 1960s and the early years of the present decade, the region as a whole - with exceptions which this is not the moment to analyse - achieved vigorous development of its forces of production.

This development was analysed in some detail in previous presentations by the Executive Secretariat, so that only its most essential features need to be summed up here. These were, firstly, the sustained growth of the Latin American economy, which meant that in 1975 the joint product of the region had increased fivefold since 1950; secondly, the growth and diversification of Latin American exports, which continued even through the recent recession in the world economy; and lastly, the improvement of the capacity for handling economic policy to be observed in the Latin American countries, to which I referred earlier.

2. This definite substantial material progress, however, was not able to solve some of Latin America's most acute and serious social problems. Modernization and progress, in fact, only benefited certain strata of society. Others, particularly the great masses, remained outside this progress or only received its benefits marginally. Owing to this basic feature of the development style which tended to prevail in the majority of the region's economies, the number of people affected by critical poverty continued to be intolerably high, unemployment and particularly underemployment did not decrease significantly, and some social indicators improved only slowly or even showed signs of deterioration.

The development of the last thirty years was thus marked by a basic ambivalence. While on the one hand it revealed the region's capacity for increasing its material output at a fairly high rate, on the other it reflected a flagrant inability to distribute fairly the results of this more rapid material progress. It is this essential ambivalence in the development style which explains the contrast between the optimistic conclusions which may be drawn from the evolution of some conventional economic indicators, such as those referring to the growth rate of the product, exports or international reserves, and the sometimes discouraging conclusions arising out of certain social indicators which show that in many countries of the region acute problems of malnutrition, poverty, illiteracy and underemployment continue to exist. In some cases their solution is desperately slow, and in others it is even more distressing to note actual worsening of the situation.

3. These characteristics of internal economic change were accompanied by an increasing internationalization of the Latin American economies which strengthened the links between their development processes and changes in the world economy.

The process of internationalization represented a new dynamic growth factor for certain countries but also involved a new and perilous vulnerability. The latter took shape with particular clarity when, in the middle of the present decade, the great growth cycle of the world economy which had begun early in the 1950s was interrupted and the trend towards a liberalization of international trade was simultaneously paralysed. In recent years, as a result of these closer links with the exterior, the rates and forms of growth of the central countries have become basic conditioning factors of the rate of internal development of many of our economies.

The relative importance of the three basic characteristics of Latin American development which I have just mentioned has, of course, varied greatly in the different countries of the region. All the same, these three basic characteristics which sum up the achievements, shortcomings and vulnerable features of the development process in the last 30 years are repeated to some extent in the experience of the great majority of our

economies and become evident when their evolution is viewed from the perspective of the last few years of this decade.

What we consider to be the three fundamental challenges which the countries of Latin America will have to face in the next decade thus emerge very clearly and can be expressed in the form of three questions:

(1) Is it possible to improve the social spread of the development style which predominates in the region?

(2) Is it possible also to maintain and if possible speed up the rate of economic growth?

(3) Is it possible to design defence mechanisms against the instability and uncertainty which characterize the present world scenario so as to reduce the effects of the new external vulnerability of the Latin American development process?

An affirmative answer to each of these questions would mean that in the next decade the region can indeed progress towards fair, dynamic and autonomous development.

I should now like to go on to make some brief remarks on the possibilities of and requisites for achieving each of these three basic services.

A. The first challenge and requirement: broadening the social impact of growth

As I mentioned earlier, it is a widely accepted fact that the dynamic growth of the region in the post-war period bypassed, in relative or absolute terms, a sizeable part of the population.

I do not intend to dwell on this topic, which I have dealt with at length in speeches at earlier sessions. On this occasion I should merely like to recall that a recent CEPAL study, covering six countries which account for 70% of the population and an equal proportion of the gross product of Latin America, found that in those countries per capita income rose by 26% in the period 1960-1970, a figure which is certainly satisfactory. Only 10% of this growth, however, benefited those who were below a certain poverty line in 1960, while 60% of it was absorbed by the richest 20% of the population. Thus, in absolute terms the 40% of the population who were poor in 1960 increased their per capita income by only 20 dollars between then and 1970. Furthermore, according to the latest available data, in 1970 about 40% of the Latin American population suffered from extreme poverty and almost half of these could be considered indigent. Although the incidence of poverty varied enormously from country to country, as may be seen from table 2, this percentage means that in 1970 the poor of the region numbered almost 110 million, of whom 54 million were indigent.

With all the limitations involved in making a projection, and merely in order to be able to visualize the urgency of the changes which must be made in the forms of development which have so far characterized Latin America, it may be noted that if recent trends continue, by the year 2000 the poor of our region will have increased in absolute figures, although they will represent a small proportion of the total population. And what is more serious, the income gap between rich and poor will have increased alarmingly, a fact which runs counter to basic moral principles, has no justification in economics and constitutes an evident threat to social coexistence.



Table 2

ESTIMATES OF THE INCIDENCE OF EXTREME POVERTY IN SOME LATIN AMERICAN COUNTRIES AROUND 1970 a/

Country	Percentage of households below the poverty line			Percentage of households below the indigence line		
	Urban	Rural	National	Urban	Rural	National
Argentina	5	19	8	1	1	1
Brazil	35	73	49	15	42	25
Chile	12	25	17	3	11	6
Colombia	38	54	45	14	23	18
Costa Rica	15	30	24	5	7	6
Honduras	40	75	65	15	57	45
Mexico	20	49	34	6	18	12
Peru	28	68	50	8	39	25
Uruguay	10	...	...	4	...	...
Venezuela	20	36	25	6	19	10
<u>Latin America</u>	<u>26</u>	<u>62</u>	<u>40</u>	<u>10</u>	<u>34</u>	<u>19</u>

Source: Oscar Altimir, La dimensión de la pobreza en América Latina, E/CEPAL/L.180, 1978, p. 81.

a/ The ten countries considered account for 84% of the population of Latin America.

The other fact of capital importance to which I should like to refer is that unquestionably most of the managing cadres - in the government, professional and intellectual circles, political parties and basic institutions such as churches, the armed forces, trades unions and business associations - agree on the urgent need to tackle this specific problem with the utmost priority. This implies that there are few people who still believe that a dynamic growth process will suffice for the problem to solve itself.

Naturally enough, there are differences, sometimes profound, in the diagnoses and remedies suggested or adopted, but this overall consensus is certainly of fundamental importance, for the collective awakening to the problem is not only a new development but also the prime and most essential condition for beginning to solve it.

The nature of the challenge facing us is certainly very complex since without losing sight of the growth objective, which I will discuss later, we must find a means of achieving social justice; without renouncing the modernization of society we must give preferential treatment to the groups which have not yet benefited from technological progress; and without neglecting the excellence necessary in the training of certain groups in our communities, we must broaden and improve the system of opportunities and rewards in such a way as to involve actively large groups in Latin American society who are still excluded from the decisions which affect their living conditions.

#### 1. The size of the social challenges

One factor closely linked with the situations of critical poverty encountered in the regions is that of demographic trends. The projections made by CELADE indicate that although there will be a slight drop in the population growth rate from 1980 onwards, in the remainder of this century the Latin American population will increase by 75% (see table 3). At the same time, migration from the countryside to the towns will continue, especially in the

Table 3  
LATIN AMERICA: TOTAL POPULATION BY COUNTRIES  
(In thousands of inhabitants at mid-year)

	1950	1978	2000
<u>Latin America</u>	<u>160 271</u>	<u>344 168</u>	<u>601 247</u>
Argentina	17 150	26 395	32 861
Bahamas	79	220	330
Barbados	211	249	285
Bolivia	2 703	5 285	9 299
Brazil	52 901	119 477	212 507
Chile	6 091	10 732	14 934
Colombia	11 597	25 614	42 441
Costa Rica	958	2 111	3 377
Cuba	5 858	9 718	12 717
Dominican Republic	2 361	5 653	9 333
Ecuador	3 307	7 543	14 596
El Salvador	1 940	4 524	8 708
Guatemala	2 962	6 839	12 739
Guyana	423	846	1 256
Haiti	3 097	5 534	9 860
Honduras	1 401	3 439	6 978
Jamaica	1 403	2 115	2 726
Mexico	26 606	65 421	132 244
Nicaragua	1 109	2 559	5 154
Panama	825	1 808	2 823
Paraguay	1 371	2 888	5 274
Peru	7 832	16 821	29 468
Suriname	215	461	904
Trinidad and Tobago	632	1 041	1 280
Uruguay	2 194	2 886	3 448
Venezuela	5 145	13 989	25 705

Source: CELADE, Boletín Demográfico, N° 23, Santiago, Chile, January 1979.

countries where the percentage of the population living in rural areas remains very high, and where the incidence of critical poverty is greatest. All this will increase the pressures on services and physical space in the urban zones.

Furthermore, due to changes in the age structure of the population, the proportion of the total population represented by persons of active age will increase, and this, combined with higher rates of participation by women, will generate an increase in the labour force estimated at an annual average of nearly 3%, with the total rising from 170 million in 1975 to 345 million at the end of the century.

A number of studies of the region show that if the current style of development continues unchanged, the growth rate needed to maintain current unemployment levels would be well above the rates achieved by most of the countries of the region in recent decades - rates which were actually the highest ever recorded.

The rapid growth of the labour force certainly represents an important challenge to the capacity for job creation of the countries of the region, and this challenge increases still further if it is recalled that it will also be necessary to increase the productivity and incomes of those who ~~are~~ currently vegetating in backward activities or are suffering from different forms of underemployment. In this latter respect, the estimates of the International Labour Office show that underemployment affects nearly 30% of the labour force. In short, the problem is not only one of reducing unemployment but also of absorbing underemployment so as ensure opportunities for productive and well-remunerated work for the entire labour force.

As will be understood, however, there are other social challenges which must urgently be dealt with - education for example. Frequent reference is made to the major advances achieved here, but the shortcomings which still exist are overlooked.

It is a fact that considerable progress has been made in increasing the access of the population to the educational system. Between 1960 and 1975, the coverage of primary education doubled in absolute terms, secondary enrolment increased five-fold and enrolment in higher education increased more than six-fold. It is also true, however, that despite the substantial effort made, illiteracy in a considerable number of countries of the region was still very high in 1970, while the average educational level of the labour force was still low and the proportion of workers without schooling was very high (see table 4). This last fact is particularly important since, as may be observed from recent CEPAL studies, the great majority of heads of households in situations of poverty have three years of schooling or less. It may also be noted that the incidence of poverty drops drastically when the head of the household has completed full primary education.

The foregoing is a reflection of the fact that the proportion of students who complete the primary cycle in Latin America is still very low, although there are substantial differences between countries. A study of 18 countries shows that around 1975 less than 50% of the students who had enrolled in primary education 6 years previously had completed the cycle, while more than half the drop-outs were in the first three years of schooling and thus ran a great risk of becoming illiterates from lack of practice.

From another standpoint the tendency towards a predominantly urban labour force and the increasing numbers of persons graduating from the educational systems mean that new job-seekers come up against a labour market which offers fewer opportunities than are required at nearly all levels, and this creates insecurity and frustration, both among young people with little education and those who have succeeded in completing their secondary education. Indeed, in some countries this situation is emerging even among graduates from higher education, who are not succeeding in finding jobs in keeping with their training and aspirations.

Table 4

LATIN AMERICA: EDUCATIONAL INDICATORS OF THE LABOUR  
FORCE AROUND 1970

Country	Average level of education of the economically active population (years of schooling)	Proportion of the economically active population without schooling (percentage)
Argentina	7.2	4.0
Brazil	3.1	36.0
Chile	5.8	8.2
Colombia	3.9	21.6
Costa Rica	4.8	10.8
Honduras	2.5	42.5
Mexico	3.5	27.1
Panama	5.2	17.1
Peru	4.5	19.3
Uruguay	5.7	4.9
Venezuela	3.6	...

Source: Data taken from the CEPAL/UNICEF project on social  
stratification and mobility in Latin America, 1975.

2. Mission: possible!

Although these and other related facts give some idea of the vast size of the tasks to be faced, I am convinced that these are not insuperable.

The economic growth of the region in recent decades, the noteworthy progress in technical knowledge, and the incorporation of increasingly large numbers of professionals trained in the management of public affairs constitute a group of factors which, united with a firm political will, may well remedy the social inadequacies that cause us so much concern. My optimism is thus not purely rhetorical.

Recent studies on the problem show that the additional income which would have been required around 1970 to bring the income of the poor groups up to the estimated minimum for covering the basic overall consumption budget was equivalent to approximately 6% of the total disposable income of Latin American households or 12% of the disposable income of the richest 10% of the population. From another standpoint, it would have represented about 22% of total public expenditure for the region as a whole.

These values, of course, hide wide variations between countries where the deficit expressed as a proportion of total personal income ranged from 0.6% to 20%, while as a proportion of public expenditure it varied between 3% and over 100%.

These relationships between the seriousness of the situations and the amount of national income or total disposable household income clearly shows that when a point has been reached, as has happened in Latin America, where average per capita income is four times the figure corresponding to the poverty line, the eradication of poverty appears as an economically feasible task.<sup>1/</sup>

If the problem is examined from the standpoint of some basic deficiencies, much the same conclusions are reached.

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<sup>1/</sup> The per capita gross domestic product, expressed in dollars at that year's prices, was 886 dollars in 1970 and the estimated poverty line at that time was a little over 200 dollars.

(a) It is estimated that between one-third and two-fifths of the population of Latin America suffers from nutritional deficiencies since their calorie consumption is below the minimum requirements recommended by specialized international agencies. Taking as a reference the cost of the basket of foodstuffs used to determine the poverty line, it is estimated that Latin America's nutritional deficiencies represent between 1 and 2.5% of the regional gross product.

(b) As regards the educational deficit, it is estimated that the additional cost of providing six years of primary schooling for the future cohorts would amount to somewhere between 0.3 and 0.5% of the region's gross domestic product, while the additional expenditure required to finance an adequate health system would absorb 1 to 1.5% of the regional gross product.

(c) Finally, with respect to housing, it is assumed that about 1% of the gross national product would have to be transferred to the poorest families so that their expenditure on housing could be equivalent to that incurred by families whose income is equal to the poverty line.

In short, to solve those deficits would involve reassigning income amounting to between 3.3 and 5.5% of the regional total, which does not seem too ambitious an objective.

Obviously, however, it is not a question here of merely transferring income from one destination to another, or from the rich to the poor. After the financial transfer - and the difficulties which by its very nature this involves - real and perhaps bigger and more complex obstacles arise. The operation really requires the transformation of some structural profiles and, in the final analysis, of the mode of operation of the economic, social and political system. Only thus can the existing distribution patterns be permanently altered, in a context of adequate productive dynamics which will guarantee higher real incomes on a stable basis for the poorer groups, without jeopardizing economic growth to the point of frustrating the income distribution attempt.



It is not surprising, therefore, that the consideration of these problems should have opened an active discussion on the nature of the policies and expedients capable of appreciably improving the distribution of the fruits of technical progress and erradicating the critical poverty scenarios.

### 3. Stages of a redistribution strategy

In this discussion - which is raised today in every kind of international forum - there emerge three lines of action and thinking: one deals basically with the problem of critical poverty; a second enlarges on this concern and extends it to the field of basic needs; and a third integrates those objectives and subordinates them to the formulation of a global strategy for change, capable of modifying the original bases of the situations of deficiency and inequality.

It is not possible to enter into a detailed examination of these positions, all of which are perfectly respectable. Let us merely say that from our own point of view we see no absolute contradictions between them, but only stages of a process which should integrate them according to the material, social and political conditions prevailing in each country.

We have no doubt that only a strategy which alters the structural bases and mode of operation of the global system can provide the whole answer to the complex problem we have before us. This does not mean, however, that we cannot propose and pursue more restricted and specific aims such as those linked with the campaigns against poverty or for the satisfaction of basic needs, which will help the collective conscience to simmer and mature, and provide concrete experience that will facilitate the attainment of more ambitious goals.

Let us examine some features of these three courses of action.

(a) The critical poverty approach

It will take time for the permanently favourable effects of the radical changes which must be introduced in the distribution patterns to be felt by the poorest population groups. Therefore, it is necessary to design specific policies with a view to satisfying the most elementary needs of poor families as efficiently as possible and within the shortest possible time.

Nutrition, education, health, housing and sanitary conditions among others, are areas of intervention in which experience in Latin America has shown a greater or lesser degree of success. Notwithstanding the efforts made, these can be said to have been insufficient, both because of the volume of resources assigned to those aims and because of the relatively limited proportion that has reached the extremely poor sectors. It is therefore necessary to revise the criteria for assigning public resources, especially in the social sectors, and also to make a genuine effort to increase the taxation of those groups which have reaped most benefit from economic growth, with the object of providing the resources required to face the extreme poverty emergency.

Furthermore, the institutionality in force and the bureaucratic administrative practices are not the most suitable to take care of the poor population. This is because the decisions adopted in the social sectors are generally unco-ordinated and the "target groups" are not clearly defined. As regards the bureaucratic administrative aspects, compliance with the rules and regulations calls for educational and other conditions which are not easily fulfilled by the population which is ultimately meant to be favoured.

These assistance-oriented policies, even if their coverage increases and their implementation improves, are not of course the solution to the poverty problem but merely help to palliate its most degrading features. This is what underlies the objective of overcoming extreme poverty as the first stage of a development strategy aimed at achieving greater social equality.

(b) The basic needs approach

A second stage, which differs from the first because of its broader objectives, the means that have to be utilized and its dynamic concept, consists of the satisfaction of basic human needs. These do not refer only to the deficiencies found in extreme poverty, measured in absolute terms, but to those which, including that minimum stage, permit self-sustained development through the creation of productive employment and levels of income which permit the persons concerned to be integrated in the economic, social and political life of their national societies. In other words besides satisfying certain minimum material needs the aim is to cover needs which, not being of a material kind, constitute essential elements of a society involving greater participation, equality and solidarity.

A first problem which arises in the satisfaction of basic needs is the choice of a criterion for defining them. Obviously, a universally valid prescription cannot be given, but the criteria should be determined according to the conditions prevailing in each country, and even within the national frontiers some of those needs will vary from one region to another. This information depends on the sovereignty of each country, a fact which must be made perfectly clear.

Once a criterion for identifying the basic needs to be satisfied and the groups to be favoured has been adopted by the political authorities, the strategy should specify the direct and indirect means for attaining the objectives. In this stage it is especially important to make sure that the policies designed to increase the income of the poor are not counteracted by a rise in the prices of the goods and services they consume, or that the productivity increments are not translated into higher monetary income. This means that the increased purchasing power in the hands of the poor will really be converted into greater permanent well-being based on changes in the magnitude and structure of supply.

In view of the limited resources of the Latin American countries, the satisfaction of basic needs should be compatible with other objectives, such as the need for sustained growth, the diversification of the production system, less external dependence in terms of both products and markets, the maintenance of certain basic equilibria and the legitimate consumer aspirations of the middle-income groups.

(c) The integrated change approach

The foregoing stages necessarily lead to a third stage, which consists of incorporation the previous two stages in a global development strategy aimed at eliminating contradictions between objectives and making the policies consistent with one another.

The choice of the two primary objectives of eradicating poverty and satisfying basic needs, in their dynamic and structural change approach, should be integrated in a strategy which will simultaneously achieve the capital formation required to sustain the expansion of productive capacity. Experience shows that the spontaneous action of market forces tends to reproduce the inequalities of the existing distribution pattern and, of course, fails to assign the resources to the production of goods and services consumed by the poorest groups because of the small percentage of income they manage to obtain. Moreover, in many cases, private investment does not respond as quickly as it should to purely economic incentives.

These considerations justify a more active participation by the State, both in fulfilling the redistribution objectives and in achieving the level of accumulation and structure of investment suited to the growth objectives and the reorientation of the production structure. This in no way implies ignoring the important role of the market; it merely points to the need to recognize that the State fulfils an irreplaceable function in a strategy which assigns priority to the eradication of poverty and the satisfaction of basic needs.

It is an empirically proven fact that the great social inequalities are linked with the structural heterogeneity of the productive systems. That is to say, the co-existence of broad informal or traditional sectors where technical progress has not yet arrived, with modern activities in which advanced technologies are used. Therefore, if it is desired to compatibilize growth with a reduction of the existing inequalities, the expansion of the modern sectors should be able to sustain a dynamic demand for employment, and a proportion of its surpluses should help to raise productivity in the backward and informal activities.

Let us recapitulate: the greatest challenge facing the governments of the region is the need to assign preferential and immediate attention to the most seriously afflicted groups; to promote the creation of employment in order to make full use of the labour force at sufficient levels of remuneration to satisfy its basic needs; and to incorporate the marginal sectors in the production process, mainly through the proper generation and channelling of investment resources.

B. The second challenge and requirement: to  
accelerate the economic growth rate

1. The economic growth imperative

The more equitable distribution of the fruits of progress and the eradication of critical poverty in a historically short time are then, in our view, basic objectives of Latin America's development policy. Clearly, however, in order to achieve them the region will require not only to raise its modest rate of economic growth of the past four years, but systematically attain a very high rate of expansion.

Please understand me. To propose this does not, of course, mean to subscribe to the ingenuous theory that the evident situations of lack or inequality prevailing in the region will right themselves with economic growth. Very much to the contrary. As CEPAL has always maintained, to grow is important, but growth is not enough. No less important, in fact, is how to grow and for whom. We have therefore repeatedly advocated that in order to attain genuine and fair economic growth in Latin America it is indispensable that not a few of the styles of development prevailing in most countries of the region should be changed.

To accept this by no means implies, however, underestimating the main significance of the accelerated and constant expansion of the production base of the economy, nor overlooking the decisive contribution it can make towards a development strategy aimed at improving the well-being and the employment opportunities and progress of the traditionally underprivileged groups.

From this point of view, the rapid and sustained growth of the economy is essential in order, first, to provide productive well-paid employment for the huge contingents annually joining the labour force and, secondly, to raise the productivity and income of the considerable proportion of the labour force which is currently affected by the various forms of under-employment. The achievement of these two objectives constitutes, as is well

known, one of the most fundamental conditions of any policy aimed at satisfying the basic needs of the population and permanently ensuring a more equitable distribution of income. But, as we have said, in the remainder of the century the region's labour force will increase very rapidly, and at present about 30% of it suffers the effects of under-employment. Consequently, in order to satisfy the minimum but essential requirement of providing productive well-paid employment for the whole labour force, the economy will necessarily have to expand at a very high rate.

The need for intensive and sustained economic growth is also evident if the implications of a redistributive policy are analysed from the angle of the real production structure. A more equitable distribution of income would lead to substantial changes in the composition of domestic demand in favour of essential goods. So that the prices of these goods should not rise out of all proportion - thus largely cancelling out the effects of redistribution of monetary income - it would be necessary to increase their production significantly and continuously.

Moreover, in order really and effectively to improve the living levels and productive capacity of the poorest sectors, it would be imperative to increase education, health, recreation and housing services also to a marked extent. All this would in itself create important pressures on the production system. Added to them would be the pressures generated by increased demand for these goods and services and also by the demand for other less essential goods and services from the middle-income groups, whose importance and growing significance in the majority of the countries of the region should not be overlooked.

In these circumstances, the maintenance of a high rate of economic growth is also indispensable in order to cover effectively, permanently and simultaneously the basic needs of the hitherto underprivileged groups, and the needs deriving from the legitimate aspirations of the middle-income sectors.

Finally, a continuous and rapid expansion of the economy would help to increase the political viability of a development strategy aimed at eradicating extreme poverty and improving the distribution of income. These objectives, by definition, imply that the more unfavourable is the initial situation of the various groups, the more rapidly their levels of income and consumption must grow. In a static economy or one which grows only slowly, such a relative differentiation in the growth rate of the income of the various sectors would require an absolute decrease in the income of the richest groups, which would certainly contribute to their opposition to the redistribution programme. This political obstacle would, in contrast, be much less of a hindrance in a society in which global production expanded steadily and rapidly. In that event, the relative difference in the rates of increase in income of the various groups would be compatible with the increase in the absolute amount of income in all sectors, including the richest, and therefore the political viability of the redistribution strategy would be greater.

Accordingly, whether redistribution is analysed from the angle of its employment requirements, or of the changes it assumes in the real structure of production, or its political determinants, the achievement of a high and persistent rate of growth is an indispensable although insufficient requisite of a programme aimed at eradicating extreme poverty and distributing the benefits of general economic progress on a more equitable basis.

2. Possibility of growth: the region's potential

The rapid summary I have made of some of the main reasons why the accelerated expansion of the economy constitutes an essential component of a redistributive strategy in the Latin American context naturally leads to the question of whether such accelerated economic growth is possible in the region.



As recent experience has clearly shown, the answer to that question partly depends on factors which are external to the region and are mainly linked with the evolution of the central economies, the policies they adopt (particularly in connexion with trade), and the progress made by the world community towards establishing a new international economic order which will be fairer and more favourable to the development of the economies of the Third World. Furthermore, any answer to this question would have different meanings for the various countries of the region, whose growth possibilities and prospects are, of course, very different.

Be that as it may - and taking these limitations into account - I consider that the answer to this fundamental question is essentially affirmative. In fact, in my opinion, a rapid and sustained process of economic growth is not only necessary in Latin America but is also possible.

This view - one of hopeful but realistic optimism - is based fundamentally on the region's vast potentialities and on the evident - though still insufficient - progress made recently in utilizing them more fully than in the past.

This vast potential - whose full realization constitutes one of the great challenges which Latin America will have to face in the remainder of the century - is based on four fundamental factors: the natural resources base, the magnitude and skill of its human resources, its capital goods production potential, and the size of the market.

Let us briefly recall some basic data on each of these factors and formulate, also very briefly, some considerations on their significance for the attainment of an accelerated growth rate.

(a) The natural resource base

It is common knowledge that in the last few years, particularly since the historical adjustment of the price of oil at the end of 1973, there has been an evident and fully justified revaluation of the role of natural resources in the development process. This has led to the renewed discovery of the obvious principle - often forgotten in the recent past - that the availability of a broad and varied natural resources base constitutes a condition which, while not in itself guaranteeing the attainment of a high rate of growth, largely facilitates this task to the extent that it is accompanied by policies leading to the rational utilization of such resources.

From this viewpoint, and if consideration is given to the region as a whole, Latin America is obviously in a privileged position. As distinct from other areas of the Third World and the majority of the industrialized countries, Latin America possesses a relative abundance of arable land and some countries of the region still have an agricultural frontier. Thus, according to preliminary calculations, it is estimated that the potentially arable areas of the whole of Latin America is close to 575 million hectares, of which some 170 million are cultivated at present. Naturally, these figures are subject to a wide margin of error and it would be a mistake to conclude from them that the cultivated area can expand rapidly and easily within the short term. Clearly, however, the existence of a considerable area which can gradually be incorporated in the land under cultivation is a relatively exceptional possibility in the world context, whose economic significance should not be underestimated.

Latin America also possesses a broad and varied base of mineral resources. Although it must be borne in mind that there are huge areas of the region whose mining potential has not yet

been explored by means of modern techniques, the known reserves of some minerals are impressive. Thus, for example, Latin America's reserves of copper represent one-third of the world total, those of bauxite more than one-quarter, and those of iron one-fifth. At the present rate of production, the known reserves of iron are expected to last 225 years, those of bauxite nearly 200 years, those of copper one century, and those of nickel over 80 years (see table 5).

Moreover, in the last few years Latin America's position has improved dramatically as regards petroleum and gas reserves, and the region also possesses an enormous hydroelectric potential. Suffice it to recall that this hydroelectric potential is one-third greater than that of the Soviet Union, that it more than doubles the combined potential of the United States and Canada, and that it quadruples the total potential of Europe. What is not less important is that not more than 15% of that potential is utilized at present and, therefore, there are great development possibilities in this field too.

(b) The new labour force

The availability of abundant and diversified natural resources is undoubtedly a propitious factor for achieving a rapid and stable economic growth. It is not less evident, however, that the realization of the development potential implicit in that natural resources base depends on the simultaneous existence of other factors, particularly work aptitudes, skills and vocation and saving by the population.

If we consider the world scene, we will find that among the countries which have reached satisfactory levels of economic development there are some which have possessed rich and varied natural resources, and others which, on the contrary, have had a somewhat modest and undiversified base of primary resources.

Table 5  
LATIN AMERICA: RESERVES OF MAIN MINERALS, 1977

Minerals	Latin American reserves (millions of tons)	Latin America's share in world total (percentages)	Annual production in 1977 (thousands of tons)	$4=(1)/(3)$ Duration of reserves <u>a/</u> (years)
Bauxite	4 360 000	26.0	22 082	197
Copper	150 000	33.0	1 494	100
Tin	1 597	16.0	40	40
Iron	19 800 000	20.0	87 834	225
Nickel	5 500	9.0	67	82
Lead	12 000	7.0	440	27
Zinc	14 000	9.0	936	15

Source: Mineral Facts and Problems: Metal Statistics 1967-1977  
Metallgesellschaft Aktiengesellschaft, Frankfurt am Main, 1978.

a/ At the 1977 rate of production.

All of them, however, whatever their politico-institutional régime, have had one fundamental feature in common, and that is that the prolonged process of economic expansion and continuous increase in productivity has been preceded, or at least accompanied, by a substantial rise in the educational levels and, above all, by a genuine universalization of basic education.

From this standpoint, there is still much to be done in the countries of Latin America. On the other hand, it would be neither fair nor realistic to ignore the progress achieved in this field. These advances - imperceptible perhaps if viewed within a short-term perspective and more intensive in some countries than others - have transformed and substantially improved the structure of skills of the Latin American population.

As a result of this progress the labour force of the region is at present radically different from that which existed, for example, barely a generation ago. Thus, it includes - to mention only a few striking instances - a much higher proportion of specialized workers employed in a modern and far more extensive and diversified urban sector, who are beginning to be found too in the more developed strata of commercial agriculture. This different labour force also comprises the new entrepreneurs, who are more dynamic and innovating than their predecessors and are increasingly often found in manufacturing, agriculture, mining, construction, basic services, commerce and financial activities. It also includes new professionals and technical cadres whose influence is progressively more evident in public administration and the management of State enterprises.

It has been largely due to this multifacet transformation of the region's human resources that Latin America was able significantly to raise its growth rate in the decade prior to the start of the world recession and that, in spite of the recession's negative effects and the growing protectionism of the industrialized countries, the region continued to expand and diversify its exports and increase its competitive capacity on the world markets.

Recognition of these positive facts should not, of course, make us adopt a passive and complacent attitude. On the contrary, it should lead us to emphasize the priority which ought to be assigned to measures for improving the skills and, especially, the versatility of the labour force, which are characteristics that in a dynamic world subject to sharp changes, are perhaps the most essential conditions that must be satisfied in order to achieve a rapid and persistent economic growth.

(c) Capital goods production potential

This qualitative transformation of the labour force has been accompanied by a continuous rise in the investment coefficient. This grew slowly but steadily from 18% in 1950 to 20% in 1960, to a little less than 22% in 1970, and much more rapidly thus far in the present decade, that is around 26% in the last few years.

Two of the main results of this investment process have been, first, the growth and diversification of the manufacturing sector and, secondly, the equally considerable expansion and diversification of the capital stock. Thanks to this, Latin America's present capacity to produce its own equipment, machinery and inputs which are of basic importance for capital formation is much greater than in the past.

Thus, for example, the steel industry - which is generally taken as a symbol of that capacity and which undoubtedly constitutes a fundamental component of a reasonably self-sufficient industrial system - produced 23.5 million tons of steel in 1978, which is 80% more than in 1970 and five times the 1960 output.

In its turn, the production of cement - a product which may in some degree be considered as an indicator of the capacity to make a broad range of infrastructural investments - was also 80% higher in 1978 than in 1970, which indicates that, as has been happening regularly since 1950, it will also double during this decade.

The increase in the generation of electric energy - another key factor of the capacity to support growth and the structural change in the economy - has been even greater. After increasing fivefold between 1950 and 1970, it has continued to expand at a very high rate so far in this decade, to the point where by 1978 it has already almost doubled the electric energy generated in 1970.

Lastly, the metal manufactures and machinery industry - which has decisive significance in the manufacture of machinery and equipment - expanded its production at an annual rate of about 10% between 1950 and 1970, and its growth was even more rapid in the first half of the present decade. As a result, its production in 1975 was 1,000% higher than in 1950 (see table 6).

For a better appreciation of the strategic significance of these figures it is useful to compare them with those for some of the industrial systems developed in some not too distant years. Thus, if consideration is given to the group composed

Table 6

LATIN AMERICA: EVOLUTION OF SOME MACROECONOMIC VARIABLES  
AND SELECTED INDUSTRIAL PRODUCTS

	Physical volume				Annual growth rates			
	1950	1960	1970	1978 <sup>a/</sup>	1950- 1960	1960- 1970	1970- 1975	1950- 1975
Gross domestic product <sup>b/</sup>	48.9	80.5	137.1	212.5	5.1	5.7	6.4	5.5
Manufacturing product <sup>b/</sup>	9.3	17.3	33.6	57.9	6.5	6.9	7.2	6.8
Production								
Steel ingots (millions of tons)	1.4	4.8	13.0	23.5	12.3	10.6	6.8	10.9
Cement (millions of tons)	7.3	16.5	32.1	57.7	8.6	6.8	7.6	7.7
Metal manufactures and machinery <sup>c/</sup> (1970=100)	16.0	41.0	100.0	173.0 <sup>d/</sup>	9.9	9.3	11.6	10.0
Electrical energy (billions of kWh)	27.0	67.6	147.6	271.7	9.6	8.1	8.4	8.8

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Billions of dollars at 1970 prices at factor cost, using the import exchange rate. Not including Cuba or the English-speaking Caribbean countries.

<sup>c/</sup> Excluding basic metal industries.

<sup>d/</sup> 1975.



of the Federal Republic of Germany, France and Italy in 1960, that is, when these three economies, following their recovery from the ravages of war, had almost completed a decade of rapid growth and constituted one of the most important industrial nuclei in the world, it will be noted that Latin America's electric energy generation in 1978 was 15% greater than that achieved by those three economies in 1960, and that Latin America's cement production in 1978 also exceeded the output of that group of countries in 1960. Moreover, Latin America's output of cement, electric energy and steel in 1978 was 150, 135 and 9% higher, respectively, than that achieved in 1960 by Japan, which was already by that year another of the most important and dynamic industrial systems in the world. Finally, the region's cement production in 1978 was about 30% higher than that of the Soviet Union in 1960, while its electric energy generation was only 7% less.

It seems clear, therefore, that thanks in particular to the development of the region's manufacturing sector in the past quarter of a century, Latin America has today a relatively broad and diversified industrial base which ensures at least one of the conditions for a more accelerated and autonomous process of capital formation.

(d) Size of the market

It is a well-known fact that the existence of broad and homogeneous markets constitutes a favourable condition for growth. They enable the economies of scale to be fully utilized, with the resulting reduction in production costs, a fact which is of decisive importance in the present-day scene and which has undoubtedly constituted the basic economic reason underlying the regional integration systems in various regions of the world.

From this standpoint, and if the region is considered as a whole, Latin America's situation and prospects are also most interesting. Thus in 1978 Latin America's total gross domestic product was equal to over 80% of the combined product of the Federal Republic of Germany, France and Italy in 1960; it was slightly lower than the product obtained that year by the Soviet Union, and trebled Japan's total product in 1960.

Furthermore, if from this year to 1990 the region were to grow at an average annual rate of 7.4% - a rate which is only slightly over that actually obtained in the period 1970-1974 - Latin America's total product in 1990 would be 20% higher than the combined product of the Federal Republic of Germany, France and Italy in 1970 and 10% higher than that of the Soviet Union for that year, and 150% higher than Japan's product in 1970.

It is true that these figures relate to Latin America as a whole, which unfortunately is far from being a unified market today. However, they have a dual and far-reaching significance.

On the one hand, they provide a first indication of the actual benefits obtainable in the medium term if the countries of the region were to progress decisively towards closer economic integration. In that case, the considerable size of the regional market would facilitate the installation in Latin America of plants which, for technological reasons, require a very high production volume so that the goods produced by them may compete on the domestic market with those imported from outside the area, given a reasonable and gradually decreasing degree of protection.

On the other hand, the figures given on the size of the regional market also serve to evaluate the much greater bargaining power our countries would have on the international scene if, instead of acting independently, they adopted a joint, or at least a co-ordinated, stand.

3. Four requirements for a growth strategy

As we have seen, the growth potential of Latin America is considerable, for the region possesses abundant and varied natural resources, has a labour force with far better qualifications than before, has succeeded in establishing an industrial sector of some size, and taken together constitutes a market of sizeable dimensions.

This potential, however, does not of itself guarantee that Latin America will in the future actually arrive at a high and sustained rate of growth. To achieve this it must conceive and apply a coherent set of policies which will also enable it to secure a fairer distribution of the fruits of this growth and a greater degree of autonomy.

It would naturally be impossible to sum up in the time I have at my disposal the essential characteristics of a development strategy which would pursue these objectives. Obviously, they would also vary very much in the different countries of the region and would have to take into account the different political situations of each of them.

For these reasons I only wish to mention what, in my opinion, are the important requirements for progressing towards and achieving the above-mentioned objectives. I would, however, stress that they do not in any way constitute an exhaustive list, and I am also fully aware that they have very different relative importance in the different economies of the region.

(a) Increasing domestic savings

A first condition for achieving rapid, fair and autonomous development is to increase domestic savings. Although in the recent past numerous Latin American countries have increased their savings coefficients, these will have to be much larger in the future in order simultaneously to boost the growth rate and reach a state of relatively less dependence on external financing.

It is true that it will not be easy to comply with this requirement, for as I already said, if it is really desired to progress in the fields of the redistribution of income and the eradication of extreme poverty it will be necessary to allocate far more resources than in the past to the production of basic consumer goods and essential services such as education and health. In order to enable domestic savings to be increased at the same time, it will be necessary to cut down the rate of growth of luxury consumption, improve the institutional machinery and incentives which promote private savings and increase public sector savings. This latter will in turn require an increase in taxation, the elimination or at least the reduction of non-essential fiscal spending and the efficient management of State enterprises.

(b) The growth of exports

A second basic requisite for achieving the proposed objectives is to increase the growth rate of exports. It is particularly important to fulfil this condition if faster and continuing economic growth is to be achieved in the relatively smaller countries, for their exports account for a fairly high percentage of final demand and their export growth rate therefore has a greater direct impact on the growth of production. Moreover, generally speaking the natural

resources of the relatively small countries are less wide-ranging and diversified, while they also have a smaller and less varied industrial base than the larger Latin American economies. In view of these two circumstances, the possibility of speeding up growth depends heavily on their capacity to import a substantial variety of raw materials, intermediate inputs, consumer goods and particularly machinery and equipment, and this capacity to import basically depends in the final analysis on their volume of exports. In these countries the export sector thus constitutes the activity which so to speak "produces" a large proportion of the capital goods they need, and for this reason a continuing and rapid growth of exports is an indispensable condition for being able to transform plans for domestic savings into real investment.

Although it is less direct, the influence of the rate of growth of exports on the overall growth rate of the economy is also very important in the largest and most developed economies of the area. The import coefficients of these countries are generally very low, and in the majority of cases the structure of imports includes only a small proportion of non-essential goods. Consequently - except for relatively brief periods - the growth rate of the economy tends to be limited by the rate at which the volume of imports increases, and this rate in turn depends on the speed at which exports increase. This last relationship may not, of course, occur in the short-term and even over longer periods if the net income from loans and investment makes it possible to finance imports whose value exceeds that of exports during the period. This imbalance between external sales and purchases, however, can only be maintained at the

cost of a growing external debt, whose adverse effect on the degree of autonomy of development is self-evident and the servicing costs of which eventually make it essential to reverse the disequilibrium in external trade, so that finally the global rate of economic growth is once again conditioned by the rate of growth of exports: hence the fundamental importance of rapid and continuous growth of exports for these economies.

(c) Rural development and the growth of agricultural production

The modernization of the rural sector and the sustained growth of agricultural production and productivity constitute a third basic component of a strategy aimed at rapid, fair and autonomous development.

In the first place, rural development is indispensable in order to achieve a fairer distribution of social income, for in the majority of our countries the most flagrant gap is not that between the incomes of the capitalists and the workers in the modern urban sector, but that existing between the levels of living of the urban workers and those who live and work in rural areas. Not only is this inequality expressed in the different average incomes received by the inhabitants of urban and rural areas but it is reflected in a particularly clear and dramatic manner in the health, education and housing indicators, and in the fact that the rural population includes an extremely large proportion of the total number of families affected by extreme poverty.

This basic gap between urban and rural levels of living is, of course, a product of numerous factors, some of which, like the very unequal distribution of agricultural property existing in many countries of the region, are structural features of the rural economy itself. To a large extent,

this is also the result of the effects of economic policies which in practice have penalized the enterprises and workers of the agricultural sector. It is a fact that in not a few cases exchange, tariff and price policies have resulted in this sector receiving artificially low prices for its products while it has had to pay excessively high prices for its inputs and for manufactures in general. It is also true that the agricultural sector, and particularly the smallest farmers, have received a very small fraction of the total credit available. And lastly, it is also a fact that fiscal expenditure on education, health, housing, public works, training and technical assistance have benefited the inhabitants of the cities to a disproportionate extent, to the relative disadvantage of the rural population. It is therefore essential to rectify these discriminatory policies if the incomes of the rural population are to be improved and if a fairer distribution of national income is to be generated. Measures of this kind, aimed at striking a better balance between urban and rural levels of living, should be supplemented by activities which, like those aimed at changing the distribution of agricultural property and raising the organizational levels of the rural workers, contribute to generating a fairer distribution of income within the agricultural sector itself.

The measures aimed at correcting examples of discrimination against the agricultural sector and the rural population, however, would not only be positive in that they would contribute to the establishment of a fairer distribution of national income, but would also be of value in that they would help to increase the profitability of investment in agriculture and augment the productivity of the rural labour force, thus also promoting more rapid growth of agricultural production and consequently helping to achieve more rapid overall economic growth.

This contribution would be particularly significant in the many countries of the region where the agricultural sector still generates the largest share of the total domestic product and where its growth rate is in the final analysis decisive in determining the speed at which the economy grows as a whole.

In many of our economies the agricultural sector also generates the greater part of total exports, and we have already seen the fundamental influence that the growth of exports has on the overall economic growth rate. Lastly, increasing agricultural production is important because the rate at which the supply of food increases depends on it to a large extent, and this in turn is one of the main conditioning factors both for the level of real wages and the stability of price levels.

(d) Need to secure a minimum of stability in price levels

Finally, I consider that another condition for rapid and above all continuing economic growth is to maintain at least a minimum of stability in price levels. Naturally, in the present circumstances, when the economies of the region have been obliged year after year to face up to strong external inflationary pressures, largely originating in the continuous rises in price levels in the industrialized countries, this minimum stability cannot be interpreted in absolute terms.

In the light of Latin American experience, however, it is also evident that inflationary processes of any intensity are essentially incompatible with the maintenance of a high and sustained rate of economic growth. These inflationary processes may perhaps stimulate the apparatus of production during short periods and with apparent ease, but after a short time this spurt in growth initially generated by inflation tends to fade out, while the price increases simultaneously reach unacceptable levels. The need to apply policies aimed



at easing inflation then becomes unavoidable, and is evident from several instances of regional experience, the stabilization policies applied for this purpose tend to depress the rate of economic growth for several years and even cause considerable drops in the level of overall production and particularly in investment. Finally, when the cycle comes full circle and inflation is reduced to more normal levels, the average rate of growth achieved during the period is seen to be very low and the accumulation of production capital minimal, thus adversely affecting the possibility of large-scale growth in the future.

Both at the stage of the acceleration in the rate of inflation and in the initial phases of the stabilization programmes, real wages tend to decline notably, so that income distribution is also adversely affected.

This is why we are convinced that the maintenance of a modicum of stability in price levels constitutes another basic requisite of a strategy aimed at achieving rapid, sustained and fair economic growth.

C. The third challenge and requirement: strengthening  
the autonomy of growth

The experience of recent years shows that Latin America has pursued a more open form of development, more closely linked with the international economy.

This is nothing new, as we are all aware. The influence of external factors has in fact, been a historical constant in the region and in the developing countries in general. What is new are the forms this phenomenon has acquired, which we shall now go on to discuss.

To avoid misinterpretation, let us say that we consider this evolution to be positive and necessary for the internal development process in so far as it enables activities requiring more wide-ranging markets to be projected outwards, and the way ultimately opened for another scheme of the international division of labour.

We must also recognize that not all the effects of this relationship with the international economy are positive, however. There are also risks to be identified and an attempt must be made to lessen them. These risks are manifested on the one hand, in the conditioning factors which this relationship implies for our development, and on the other in the undesirable fluctuations caused in our economies by the course of international events.

Overcoming these two major liabilities constitutes one of the essential tasks of economic policy. This should foster the active insertion of our economies into the international economic scenario and at the same time reduce vulnerability and perils involved in international interdependence. To the extent that these objectives are achieved, the autonomy of Latin American growth will be correspondingly strengthened.

How should we interpret "active" insertion in the international economy? I think we should understand it as the kind of insertion which is fostered and selectively oriented by the national authorities in keeping with the objectives of

national development. This does not, of course, mean ignoring the role which the forces of the market can and should play in this selection. We do not, however, believe that these forces should be the factors which exclusively determine the process. The linkage between the region and the international economy conditions domestic development right from the start. It must therefore be oriented so as to uphold the main objectives of the community. Consequently, the linkage with the international economy should not be entirely subject to the forces of the domestic market or those of the growing power of the transnational corporations.

In other words, Latin America should make the maximum possible use of the advantages stemming from closer links with the rest of the world, but without renouncing a form of development defined in an autonomous manner. Just as each of our societies has some form of national development project, so also we should set ourselves a national project for our insertion in the international economy on a selective basis in keeping with our own interests.

There is no single way of doing this, of course. In the last analysis, the forms of insertion which each country selects will be determined by the degree of development it has achieved, its size and geographical location, its traditional trade and financial relations and its own economic or political ideology as regards the development of its forces of production and its social objectives.

The second basic objective in this area is to lessen external vulnerability. In order to analyse the implications of this, it is essential first of all to examine the new forms of regional internationalization.

1. The new forms of Latin America's insertion into the international sphere

I have already referred to the deep-seated change which Latin America has undergone during the last thirty years, and particularly during the present decade.

This change substantially altered the forms of the region's insertion into the international sphere in at least four basic aspects.

The first of these changes occurred in the structure of Latin American exports. In the 1950s, more than 95% of these exports consisted of primary commodities. Today, however, industrial goods account for nearly 20% of the region's total exports and are worth around 10 billion dollars. These figures clearly show that the Latin American countries have learned to export, by placing their manufactures - some of which have a high level of technological sophistication - in their traditional markets and diligently seeking to open up others. The growth and diversification of exports thus constitutes a novel and basic feature of the new Latin America.

The second change relates to the origin of the external financing received by the region. During the 1950s, the bulk of the capital entering Latin America was of public origin and only a small proportion came from private sources. Nowadays, however, the percentages have been inverted. Four fifths of the capital inflow is of private origin and only one fifth of public origin. Owing to the abundant financial resources flowing into the region, the external debt increased from 10 billion dollars in 1965 to more than 60 billion dollars in 1975 and then continued to escalate until it reached an estimated 100 billion dollars in 1978. Latin America has thus become an active seeker of capital in the private banking markets - a situation practically unknown in the past.

The third change concerns the participation of the transnational corporations. The increasingly powerful presence of these corporations in the countries of the region is another

manifestation of the transnationalization of the Latin American economy. It is estimated that in 1975 the accumulated investment of the OECD countries in Latin America came to nearly 40 billion dollars, while the overall sales by the transnational corporations in the region accounted for around 80 billion dollars - nearly twice the total value of Latin American exports for that year.

The fourth change concerns the intensity and the nature of Latin American demand for technology. As a result of the diversification of the apparatus of production and the progress of industry, regional demand for new technologies has gone up enormously and its nature has changed. This demand now covers the most varied fields and in recent years has come to include nuclear technology for peaceful purposes. This trend has become progressively more pronounced as the bases of the system of production have been expanded and diversified and the region has begun to produce increasingly sophisticated industrial goods.

These facts show the profile of the new forms of Latin America's insertion in the world economy and reveal how its links with it have become progressively stronger, with all the advantages but also all the contradictions which this involves.

It is therefore more than ever imperative to answer the question we asked earlier: how can we lessen the vulnerability which the growing internationalization of the region creates in us?

2. Lessening external vulnerability: the tasks of the region

Faced with this question, a clear distinction must be drawn between what the region should be doing and what is incumbent on the international community - mainly the group of the industrialized economies.

As regards the first responsibility, we have already stressed that much of the action taken in recent years has worked towards strengthening Latin America's defence capacity

vis-à-vis the international economic conjuncture. This is why our countries must keep up the process of the diversification of production; increase and diversify their exports, both in terms of the number and variety of the goods exported and the markets on which they are sold; implement domestic policies of readjustment so as to be able to cope with the trends indicated by the international conjuncture in such important aspects as the price structure; and define policies for dealing with the transnational corporations so as to adapt them to national interests. We must also regard questions of regional co-operation and policies aimed at closer links with and concertation of our conduct vis-à-vis the international community as matters of interest falling within our competence.

For many years CEPAL has stoutly maintained that regional co-operation should constitute a basic element of our development.

We consider that while this assertion continues to be as valid as ever, such co-operation should now play the additional role of serving to offset and defend against the vicissitudes of the international economic conjuncture.

This does not mean, of course, that we should reduce our efforts to achieve an active insertion in the world economy. It does, however, mean recognizing that regional co-operation is nowadays called upon to play a more important role than in the past, in so far as Latin America makes an effort to achieve the double objective of reaping the benefits of its active integration into the world economic system on the one hand and maintaining the autonomy of its growth process on the other.

There are, it is true, indications that regional integration is passing through a period of crisis or stagnation. Of the four formal integration schemes in existence, the Andean Group has stood out during the present decade on account of its greater dynamism, while the CACM and CARICOM continue to face major problems and

LAFTA is approaching the end of the period of transition set by the Caracas Protocol without having achieved any revitalization of the integration process.

Despite these circumstances, the relations among the countries of the region have not ceased to grow during recent years, through the increase in reciprocal trade and joint activities of specific types.

Between 1960 and 1977, intraregional exports grew nearly three times more rapidly than exports to the rest of the world, so that their share in total exports increased from 8% in 1960 to 17% in 1977. The importance acquired by regional trade is even greater if one looks at its structure in which manufactures carry a far greater weight than in exports to the rest of the world.

Moreover, the relative weakening of some of the formal integration schemes has been offset by a definite tendency towards the expansion of economic co-operation among the countries of the region as a result of partial activities of a specific nature. Thus, the integration of the physical infrastructure has experienced sustained and noteworthy progress both in the field of transport and in that of communications and energy (especially hydroelectric energy). The Latin American countries have also given considerable impetus to the complementation of their production sectors, not only through an increasing flow of intra-regional investment, but also through transfers of technology from the countries which have reached relatively advanced stages of development.

In this regard, the growing heterogeneity existing among the Latin American countries from the standpoint of the size of their economies, their degree of development, the natural resources they possess and other factors would appear to be a stimulus for undertaking joint action, in that it makes it necessary to combine the markets, natural resources, technological capacities and financial surpluses of the different countries.

Although it would be premature to evaluate the impact of this type of activity on the economic development and complementarity of the countries of the region, its dynamism is certainly notable.

What is perhaps even more important is the fact that the increase in mutual trade has contributed very effectively to mitigating the impact of the profound disturbances which have affected the international economy in recent years.

At the same time, greater economic complementarity among the Latin American countries would seem to be a necessary condition for them to reach new levels of efficiency and competitiveness in the world markets, particularly in activities which, for reasons of scale, the origin of their raw materials, technological sophistication or the volume of financial resources required, demand a joint effort by two or more countries.

We are therefore convinced of the need to rethink the role which regional economic complementarity is called on to play in the future development of the countries of Latin America. This is also why we are watching with great interest and concern the progress which may be expected in some of the ongoing negotiations on the integration schemes. I refer particularly to those which should take place this year within LAFTA and the continuation of the negotiations taking place in the Central American Common Market.

3. Reduction of external vulnerability: areas in which the co-operation of the international community is required

It must be acknowledged, however, that the individual efforts of our countries and even their possible concerted action at the regional level will not be enough to achieve a significant increase in the degree of autonomy of our domestic development, for this will continue to be strongly influenced by what the industrialized countries do or fail to do. This is why the Latin American countries have a vital interest in the future evolution of the international economy and the process of negotiation of the New International Economic Order.



I will begin by repeating that the great hopes of the region must continue to be firmly placed in this process of negotiation. When we look at the agonizing slowness of the progress made in this matter so far, however, we cannot feel too optimistic. Moreover, it is also true that the profound economic transformation of the region in the last few decades, and especially the new forms of our international relations, are changing the priorities as regards the objectives which Latin America must pursue through the establishment of a New International Economic Order.

Does this mean that our interest in this new Order should go down?

The answer is most definitely no. It is only necessary to look at some of the great areas of international discussion to see that even though the relative emphasis may have changed, the region continues to be deeply interested in what goes on in the forums where the international dialogue is taking place. Let us look, for example, at some of the topics which are under discussion in various international forums today.

(a) A new international framework in the field of basic commodities

A first example is that of basic commodities. As I already noted, these continue to represent 80% of the total value of the region's exports. Traditionally, Latin America's main concern in this field has been regarding the proportion of the value of total sales which returns to our countries in the form of taxes on the profits of the big foreign commodity-exporting firms and the expansion of their investments.

Now, however, the ownership of these enterprises has changed in many cases and the concern of the Latin American countries is centred more on the stabilization and improvement of prices and the increase in income from their exports of commodities. This is quite logical, since commodities will continue for many years to be a fundamental item in our foreign exchange income. This why it is a matter of special and disquieting concern that in the last few

decades Latin America has been losing relative importance in the world food and commodity markets both to the other two developing regions and to the industrialized countries.

Thus, for example, between 1960 and 1977 Latin America's share in world exports has dropped from 47% to 26% in the case of bauxite, from 70% to 52% in the case of coffee, from 58% to 46% in the case of sugar, and from 23% to 12% in the case of meat.

It is easy to see the unfavourable repercussions of these figures for the majority of the countries of the region which still depend mainly on exports of these products.

The loss of opportunities to increase our foreign exchange earnings implicit in the above figures gives grounds for reflection as to why the efforts made and the successes achieved by the Latin American countries in the field of exports of manufactures have not been accompanied by similar advances in exports of commodities.

This is why the region must continue to take an active part in the discussions aimed at establishing a more equitable framework for commodity trade. It should be noted in this connexion, however, that the criterion of price stabilization is not enough, and may even be highly dangerous in periods of inflation like the present. The important thing is to secure stabilization of commodity prices in such a way that they receive fair prices on international markets.

It is necessary to advance with equal determination in the fields of the marketing, transport and local processing of these goods. The recent progress made regarding the Common Fund represents a positive albeit timid step towards what ought to be an authentic new order in this field.

(b) External financing

A second important aspect is that connected with external financing, for in the future Latin America will continue to need large flows of capital to supplement its domestic saving and its import capability. Although there have been times when it may have

seemed that the improvement in the region's terms of trade had reduced the importance of external financing, the last few years have demonstrated how important the provision of external resources has been for the maintenance of Latin America's growth.

There are also other important changes which should be taken into account in this connexion. During the years following the war, both Latin America and the industrialized countries attached great importance to official development aid and especially the concessionary nature of the terms of credits.

Today, our concern is centred on three factors directly linked with the transfer of resources from the industrial countries to the developing countries, namely:

(a) the progressive elimination of Latin America from the flows of transfers of public resources, both bilateral and multilateral;

(b) the real or potential limitations on the region's access to capital markets and possible restrictions which might arise in the future;

(c) the lack of suitable machinery for facing up to the new-style balance-of-payments crises.

In one form or another, and with different degrees of severity, the Latin American countries have been suffering from these problems, as they have made known in international forums.

The progressive elimination of Latin America from among the recipients of official development assistance is very well known. Of course, there is no question of denying that it is permissible and necessary for the international community to provide support to the relatively less developed countries of the third world in the form of generous credits on concessional terms. What may, however, be disputed is that this should have led to the exclusion of Latin America from access to public sources on the pretext that it can manage on its own by making use of the private capital markets.

We believe that Latin America should share in public flows both of capital and of technical assistance - and not only in the case of the relatively less developed countries, but also in the case of the remainder, inasmuch as a certain type of credit required to finance the development of the region can only be secured through public channels.

In this context, I should like to emphasize that the region's external savings requirements are large today and will be much larger in the future, and that private sources are not capable of meeting these needs on the terms and for the periods which are often required. Accordingly, it is essential that the international community should continue to support such institutions as the Inter-American Development Bank, the World Bank and the regional financing agencies.

These observations lead me to the second issue of concern in this field: the need to maintain the region's access to private financial markets and to sustain the substantial flow of private capital currently being directed towards the region. Regrettably, these flows are largely flows of short-term and medium-term capital, and many Latin American countries have still not secured full access to sources of long-term finance, which is so necessary in order to maintain an adequate rate of growth.

Finally, some countries of the region are concerned at the lack of resources to deal with the new types of balance-of-payments crisis. As was pointed out in the report referred to above prepared recently by the UNDP/UNCTAD Project on the balance-of-payments adjustment process in the developing countries,

"it is important to distinguish between those components of a balance-of-payments deficit for which a developing country is directly responsible and those which are due to factors outside its control".

And it is no less important to recognize that, as the report also indicates,

"to the extent that such deficits are merely the counterpart of structural surpluses in other parts of the system, or reflect substantial price movements of external origin the adjustment must take place over extended periods of time".<sup>1/</sup>

Even though limited efforts have been made to meet these financing requirements generated by the international economic situation in recent years, much remains to be done. For that reason the existence of sources of resources provided on terms appropriate to the new critical balance-of-payments situations should constitute one of the principal objectives of the international community.

It is therefore natural that the region is keenly interested in the international negotiating machinery through which attempts are being made to establish a new international monetary system and to assist the developing countries with their balance-of-payments problems and external resource requirements.

(c) Relations with the transnational corporations

The relations of the Latin American countries with the transnational corporations - and the flows of investment and technology which are usually channelled through them - constitute another issue of major importance. For that reason the region is fully committed to international negotiations on this subject, and especially on the Code of Conduct.

Latin America has become one of the most attractive regions of the world for the operations of the transnational corporations, as a result of a set of factors including the growing size of its markets, the abundance, skills and relatively low cost of its labour force, its degree of institutional development and the abundance of its natural resources.

This has sharply increased the bargaining power of the countries of the area. And as a result they have come to take a more active stance vis-à-vis the transnational corporations and have sought a better way to reconcile the corporations' activities with their own national development objectives.

<sup>1/</sup> Op. cit., p. 5.

This has led to the emergence of links and relations with such corporations which range from co-production and specialization agreements to agreements limited to the provision of technological inputs or marketing services. At the same time regulations have been drawn up to ensure that the corporations establish links with local public or private capital, thus achieving a fairer distribution of the benefits derived from their activities.

Nevertheless, concern remains regarding other problems, such as the role of the transnational corporations in generating balance-of-payments deficits, their low level of investment from external sources, the high import content of the goods they produce or the ways in which prices are established in transactions within the companies.

All this naturally calls for appropriate decisions for national regulation. However, it is already well established that this is not enough, and that to some extent there is an additional need for general rules, jointly adopted by the countries, to govern the activities and policies of these firms.

(d) Control of the new protectionism in the industrial centres

While painful progress is being achieved in this and other areas of international negotiations, certain actions are being taken in some industrialized economies which, because of their magnitude, give rise to serious concern in the countries of the region and throw a shadow over their domestic development efforts.

I refer to the recent and marked recrudescence of protectionist tendencies in the major industrial countries. I have already mentioned that one of the most positive factors in Latin America's economic development has been the vigorous effort to export manufactures. Exports of industrial goods have thus become a factor for growth and stability for the countries of the region.

Nevertheless, at times when this favourable trend is occurring, the protectionist tendency arises increasingly forcefully in various industrial countries, with a consequent adverse impact on our exports.

Thus an estimate based on CEPAL analyses of 75% of Latin America's trade with the United States, Japan and the European Economic Community shows that the protectionist measures applied in those three markets caused the region to lose 2,800 million dollars in 1976 in terms of goods not exported because of the measures. That sum was equivalent to about 15% of the total exports considered.

It should not be said that we are facing a new problem. It is well known that protectionism - especially in agriculture - has a long history in international trade. What is worrying is that this phenomenon is now assuming different characteristics, forming a much more subtle and complex picture, which is tending to create a permanent system behind a screen of exceptional, temporary measures.

The introduction of quotas, voluntary agreements, non-tariff barriers and other protectionist measures is tending to increase. Their importance is undoubtedly much greater as a potential threat than as a present reality. But there are already signs which give grounds for concern and reflection.

The new protectionist measures contain blatant contradictions, which have been pointed out repeatedly not only by spokesmen for the developing countries but also by officials representing the developed world.

Firstly, there is a flagrant contradiction between such actions and the traditional economic theory originated in the industrialized countries themselves, and also with economic policy recommendations made by them over a long period to the developing countries, to the effect that they should open up their economies to international competition and become more fully integrated in the world economy. This manifest contradiction is certainly a special source of frustration and resentment for the countries of the third world, and one whose consequences should not be underestimated.

A second contradiction arises within the industrial countries themselves, and emerges in the difference between the costs they would incur in opening themselves up fully to international competition, and to that end restructuring their internal structures of production, and the cost of the new protectionism.

In fact, the real costs of a policy of free trade are out of all proportion in the industrialized countries to the protectionist measures they have proposed or adopted.

For example, a recent study carried out for the United Kingdom established that between 1970 and 1975 134,000 jobs were lost in 24 industrial sectors as a result of increased imports of competing products; only 47,000 of the losses, were attributable to imports from developing countries. This latter figure is equivalent to less than 2% of the labour force employed in the sectors covered in the report. But the net drop in jobs related to trade with the developing countries was even lower, since account must be taken of the rise in employment due to the increase in British exports to the developing countries.

These and other similar data would appear to show that the impact on the industrialized economies of competition from the developing countries is much less greater than is claimed in justification of the current growth in protectionism.

Protectionist reactions to imports of manufactures from the developing world also usually forget that in their trade in manufactures with the developing countries in 1976 Europe and North America recorded a positive balance of 100 billion dollars - corresponding to the net creation of 10 million jobs in those industrialized economies taken as a group.

Meanwhile, the recent World Development Report of the International Bank for Reconstruction and Development indicates that in 1977 the developing countries absorbed 33% of North America's exports of manufactures, while Western Europe bought only 20%. Furthermore, the developing countries purchased 25% of the total exports of Western Europe, while North America took only 7%.



4. A basic requirement: the restructuring of the central countries' economies

The trade trends recorded in recent years have once again shown that the past international division of labour is becoming obsolete. Only a genuine restructuring of the productive forces in the industrial countries which would recognize this fact can lead to a healthy and sustained development of the world economy.

In the last few years, the realities of interdependence have been as notable for the industrial countries as for the developing countries, which have long been acquainted with them. In this field, the conspicuous case of energy resources is certainly not the only one.

As clearly pointed out by the Economic Commission for Europe, it should not be overlooked that the proportion of the gross product which Western Europe as a whole obtains from external trade has grown from 10% to 20% in the past two decades. One out of every seven industrial workers in that region works for export. In the United States, one out of every three hectares of agricultural production serves international trade.

Indeed, it might be affirmed that at the present time the old saying could be inverted: everything that is good for the developing world is also good for the industrial world.

On the basis of that principle it would be relatively easy to infer that mutual interest should be found in a genuine restructuring of the economy of the industrial countries, from which would derive situations of prosperity that would be reflected in the economies of both the developing and the industrial countries. As Mr. Janez Stanovnik, Executive Secretary of the Economic Commission for Europe, stated very clearly in February 1979, when he announced the results of a study by the secretariat of that Commission on the structural changes and trends in European industry in the past two decades:

"Growth and structural change are twins. Dynamic industrial sectors invariably are also the sectors which have been undergoing the most dynamic structural change. Or, if you wish, the countries which have been the most flexible in adapting their economic structures towards the sectors of high growth and high technological innovation have also been at the same time the countries of higher overall economic growth. One lesson therefore comes very clearly from the past, namely that we cannot consider structural adaptation and change under the conditions of economic stagnation".

Mr. Stanovnik went on to say that we find ourselves today in a completely anomalous situation in which the total resources that the governments of the industrialized countries spend on subsidies are equivalent to the total value of their imports of manufactures from developing countries. Today they are spending about 2% of the gross domestic product on imports of manufactures from developing countries and approximately 2% on different types of subsidies. This seems an anomalous situation which is also closely linked with inflationary trends.

In the light of these facts it is perfectly clear that the solution does not lie in closing trade but in a genuine economic restructuring of the industrial countries which would involve recognition of the new international division of labour which is a primary factor in the construction of a New International Economic Order.

##### 5. The strengthening of Latin America's bargaining capacity

Finally, I wish to make some observations on what I believe is an urgent imperative: the improvement of the bargaining power and attitude of the developing world, in particular of Latin America.

This bargaining power today faces new challenges and increasing dangers.

The challenges derive from the new attitudes prevailing today on the international scenario which are progressively tending to differentiate between the special situation of the so-called "intermediate countries" - of which most of the countries of the region form part - from the rest of the developing countries.

As a result, de facto situations are being created which, as I have already said, are reflected in the growing exclusion of Latin America from official development assistance, in the tendency to discriminate between countries and groups of countries in trade matters, in attempts to reduce the resources assigned to Latin America by multilateral financing institutions, in policies aimed at reducing the funds earmarked for multilateral and bilateral technical assistance, and, lastly, in the segregation of what have recently been called industrialized countries from the rest of the Third World economies, as expressed in recent reports of national and international development agencies.

A kind of abandonment of the region to its own forces is thus being created, precisely when the symptoms of recession and instability are predominant in the world economy. What is more, the slow progress in the negotiation of the new international economic order has prevented the adoption of concrete measures to deal with the specific and frequently urgent problems of the Latin American countries.

The result of these policies and trends and what they might mean in the future has not yet been analysed in sufficient depth by our countries, save for their emphatic rejection in international negotiating forums of any attempt at exclusion or differentiation. We believe that the subject merits detailed consideration in order to deal with it frankly in world discussions and take a stand against the risks which these differentiation policies involve.

These risks arise both in the attitudes of the industrialized countries and in those which might be generated within the developing countries themselves.

In the attitude of the industrialized countries, in my opinion, two serious dangers exist. The first and perhaps the most serious danger is that the intermediate countries are believed to have passed the stage in which they need international co-operation. The facts clearly show that this is not the case. Latin America needs and will continue to need international co-operation for many years. Its heavy dependence on the international situation, its increasing investment needs, its eagerness to incorporate technology, to mention only a few significant items, are some reasons why the region must have the support of the international community to continue to play the dynamic role it already has, which could be spectacularly expanded in international trade and investment.

The second and equally obvious risk deriving from these attitudes, which is accentuated as the international negotiations fail to advance at the desired rate, is that of falling into the temptation of thinking that the problems of the New International Economic Order can be negotiated separately or sectorally, both by topics and by groups of interested countries.

This would mean renouncing one of the essential principles of the New International Economic Order, that is, its universal and global character. In our opinion, the problems which this New Order is intended to solve cannot be dealt with in watertight compartments. If there is one fact which demonstrates the true situation in the last few years it is the close relationship between the fields of trade, financing, investment and technology. Therefore, it is impossible to deal with one independently of another; hence, to break that unity of treatment would be equivalent, in our view, to ceasing to deal with the integral essence of the situation and falling into piecemeal approaches which in the long run would not lead to the establishment of a fairer and more equitable order in international relations, but merely by postponing the real solution to the problems it would sow the seeds of future controversy.

Similar risks may be identified in the attitudes of the developing countries.

The first is that owing to the discouragement in the face of the slow progress being made in the international negotiations and the differences in level of development or relative positions vis-a-vis the international situation existing among the Third World economies, the unity of the Third World might be weakened or even disrupted.

This unity must be recognized as of fundamental importance. In fact, in a world with such unequal negotiating powers, the negotiating unity of the weakest is essential. The developing countries, however large, count for very little at the negotiating table if they participate on their own. Furthermore, the developed countries should see in that negotiating unit the assurance of sound and continuing negotiations.

This, of course, does not prevent recognition of the existence of special interests of certain countries or groups of countries in the discussion of the complex and wide-ranging problems of the New International Economic Order. But such special interests should be identified by the developing countries themselves and should be dealt with on the basis of principles of solidarity which should prevail within the group, while at the same time claimed in the relations with the central economies.

It is therefore in the appropriate identification of those diversities and in the search for mutual support for the interests of each country that the negotiating unity of the Third World should be found.

The other equally evident risk is that some of the countries of the developing world might fall into a kind of "temptation of solitude" and choose to navigate the international situation on their own. We believe that such an attitude has evident disadvantages and that it would be highly negative both for the construction of a new order and also for the permanent interests of such countries as were to succumb to that temptation.

All this leads us to the conclusion that it is necessary both to strengthen the bargaining power of the developing world, and to provide renewed impetus to the machinery for international dialogue. The mutual interest should be a realistic source of inspiration, but the ethical imperative in the face of the existing inequalities should be the great challenge for the construction of a better world.

Latin American unity is essential for these purposes, as much for the international dialogue as to progress within the frontiers of the region itself. This is the true meaning of collective self-reliance which, and with good reason, is being claimed in the developing world.

For us, collective self-reliance is integration. We sincerely believe that the road to regional co-operation has scarcely started to be travelled. The results I have referred to in the field of formal and informal integration are thus only the first steps.

There are, in fact, a great many opportunities for regional co-operation in the fields of investment, trade, technology and financing. It will depend on our ability to see clearly where the common interest of each country lies whether that powerful engine of our growth - regional co-operation - will play an increasing role in our development strategies.

A similar comment is pertinent in examining the possibilities of co-operation between Latin America and the rest of the developing world.

The initial contacts we have made with Africa and Asia have caused us to view with renewed optimism the co-operation potential existing between those regions and Latin America. To take advantage of that potential undoubtedly requires firm and decisive political support and also a basis of technical information for the establishment of which CEPAL is prepared to lend its assistance to the governments of the region.

### III. FINAL REFLECTIONS

In closing, and as a final message from the secretariat on the occasion of the eighteenth session of the Commission, I should like briefly to recapitulate the more salient points of this report and draw some conclusions based on what I have just said.

In all areas of life in the region, whether economic, social or political, time has not passed in vain for anybody. The region's best asset is perhaps its fund of experience - both successful and unsuccessful - which has been the fruit of long years of travelling the difficult paths of development.

Taking stock of that experience over the last three decades leads to three major conclusions:

The first is that during this period the Latin American economies have undergone a dynamic process of growth and transformation. Although varying in intensity in the different economies of the region, this process has brought about substantial changes in the great majority of them. As a result, the economies of Latin America are today very different both in size and in other structural features from the economies of thirty years ago, when CEPAL began its activities.

The second is that in the majority of cases the benefits of this significant economic growth have been distributed most unevenly among the different groups of society and consequently extreme poverty still affects vast sectors of the Latin American population.

The third is that during this period the forms of Latin America's insertion in the world setting have changed greatly, which, as I pointed out earlier, has brought some favourable consequences, and others less favourable.

Furthermore, it is important that it should be clearly understood that the substantial changes in the political and economic scenarios and in the workings of the international economy which set in at the beginning of the current decade and which

reached a peak in mid-decade with the most profound and protracted crisis the industrialized market economies have known since the Great Depression, have radically altered the external factors conditioning our development. The world economic setting of the closing years of this decade is indeed qualitatively and substantially different from what existed at the beginning of the decade; and therefore to the foregoing conclusions we must add some further points which need to be better defined.

The first of these is that the three processes mentioned earlier have taken on new features, almost all of which are unfavourable. The widespread instability of the international economy and the sluggishness of the central economies have been reflected since 1975 in lower growth rates in most of the Latin American countries and a considerable rise in their foreign debt. The simultaneous rise in external inflationary pressures has also meant that at the same time the problems of income distribution have worsened in many of our countries.

A second fundamental point which should be born in mind is the transformations which have occurred in recent years and which continue to occur in the industrialized market economies. The capacity of the central countries to respond to the substantial changes in the international monetary system, the structure of world trade and the supply of certain strategic raw materials has proved to be much more flexible and effective than that of the peripheral countries, and has taken the form of the adoption of measures and the creation of machinery of a defensive nature. As a result of these responses - whose high degree of co-ordination has contrasted with the dispersed efforts of the countries of the Third World - the influence of the central countries in the bodies responsible for establishing the modalities and machinery which will provide the framework for the workings of the new international economic order has remained very great.



A third major event of the present decade, and one of particular importance to the countries of the periphery, was the raising of the price of petroleum. This changed radically, and probably definitively, one of the essential elements on which international trade and the development of the industrialized economies had been based since the war. What is no less significant for the countries of the Third World is that this was a clear demonstration of the advantages which they could gain by taking joint action to secure better earnings for their primary commodity exports.

Nevertheless, as a result of the rise in the price of petroleum and of other changes which occurred in the international economy as well as the development of the countries themselves, the latter have tended to differ increasingly in the extent and forms of their insertion in the world economic system. The importance of this fact must not be neglected, since it represents a possible difficulty for the renewal and strengthening of economic co-operation within Latin America at a time when the adverse circumstances deriving from the slow and unsteady growth of the central economies make joint action by the countries of the region more necessary than ever.

It is against this background of the economic and social development trends of Latin America over the long stretch of growth which came to an end in the middle of the present decade, and of the many deep changes which have occurred in the world economic picture in recent years, that I would ask you to consider the following three major concerns.

1. How can the great majority of the Latin American population catch up

The first problem is to improve the distribution of the benefits of economic growth. This, as I mentioned before, is a fundamental moral imperative of development policy. The continued existence of situations of extreme poverty and even indigence

affecting a large proportion of the Latin American population constitutes in my opinion the clearest and most unacceptable shortcoming of the style of development which has prevailed in the region. What is equally important is that the eradication of extreme poverty is in most of the countries of the region today a feasible objective from an economic standpoint. Again, as I pointed out earlier, to achieve this objective satisfactorily would call for the application of systematic and coherent policies of redistribution accompanied by a high, steady economic growth rate, and thus the reduction of social inequality would go hand in hand with a considerable expansion of domestic markets.

2. How to bring new ideas into economic relations within Latin America?

This expansion of the domestic market and the foreseeable drop in the growth rates of the economies of the industrialized countries highlight the need to introduce new ideas into all levels of economic relations within Latin America. In the present circumstances, these have tended to become defensive, in the face of the unfavourable trends stemming from the international economy, and constitute a potential on which faster, steadier growth of the Latin American economies could be based.

It is important to realize that this fostering of bilateral, subregional and regional interrelations in Latin America should be viewed as a complement of, rather than a substitute for, the growth of national markets.

Thus the second major concern which I ask you to consider, one with which CEPAL has been closely associated since its inception, is that of finding the machinery and methods of attaining this objective.

3. How to transform passive insertion in the international economy into dynamic interdependence?

In a world of increasing economic interdependence, it would be unrealistic for a region whose performance has depended heavily upon trends in international trade and finance to set its sights on autarchy. Neither the expansion of domestic markets nor a greater degree of economic interrelation in Latin America should be seen as means of reducing their degree of insertion in the world economy. Quite the opposite. The export capacity of the countries of the region should increase and the vigorous process of growth and diversification of exports should be pursued. At the same time, the rising level of income of the Latin American population will swell the volume of imports.

The challenge lies precisely in thinking out how the countries of the region can make maximum use of the opportunities offered by their position in world economic flows while minimizing their negative effects; how to play an active role in the design of the rules of the game governing trade and financial flows, instead of being relatively passive participants; and how to reconcile the economic policy requirements needed to attain these objectives with those required to achieve the growth and redistribution targets.

The dialogue on the New International Economic Order begun some years ago points in this direction, and we must continue to emphasize the set of topics it comprises, and devote all our powers of imagination and negotiation to developing it.

I have ventured to single out only these three fundamental concerns. Neither their number nor the order in which I have mentioned them are the result of an intellectual whim. On the contrary, they represent the secretariat's conviction that there is a deep interrelationship and interdependence between them. An expansion of national markets which is not accompanied by community regional and subregional action and without a proper insertion in the world economy could result in a state of technologically-backwar

semi-autarchy. And an external insertion lacking these national and regional dimensions would represent an extremely vulnerable and dependent style of development.

Finally, I wish to pause for a moment to examine the implications for CEPAL of the identification of the three major concerns to which I have referred. The fact that I have limited myself to stating them and have not attempted to suggest ways of solving them is deliberate, since my main purpose is to elicit guidelines from you for our future activities.

Naturally, the secretariat has some ideas in this respect, and these are contained in the documents which we have submitted for consideration at the session. We are, however, far from understanding all the consequences and implications of the topics which I have ventured to cover in this report. Still less do we have all the answers about how the region as a whole and each country in particular can face up to these challenges in the new and ever-changing conditions characteristic of the present world economic picture.

This is, in my opinion, one of CEPAL's principal tasks in the immediate future: to re-examine our thinking on Latin American economic development and adapt it to the context of a rapidly-changing world and of a growing variety of options within the region itself. This is the challenge which the secretariat must tackle in the future, and whose dimensions and implications we hope to be able to begin to examine - at least roughly, at first - when working on a New International Development Strategy for the region.

We know what disappointment many of these exercises have caused in the past. But it is important to renew our interest, by updating the approaches to the preparation of a new strategy.

The opportunities opened up to us by the dialogue on the strategy are wide-ranging. On the one hand, we are encouraged to reflect on our own internal problems, an exercise which of course constitutes a sovereign task for each country. But the dialogue can stimulate that reflection and enrich it with the cumulative experience of each and every one of our countries.

On the other hand, the discussion of the strategy can explicitly include a constructive debate on the possibilities and limitations of regional co-operation. Thus, it can be converted into support for the political task which must be carried out in order that regional co-operation may be renewed and may thus accentuate its dynamic role in our development process.

Lastly, the discussion of the strategy will provide a further opportunity both to identify the problems of the new international economic order within the context of a broader perspective, and to establish specific goals for the international action of governments of the region.

Understood in those terms, the international development strategy should not be, as it was in the past, an exercise conceived only at the world level and from the centre of the United Nations system. This exercise which is undoubtedly valuable, should be supplemented by a regional view which, translating the global goals into regional objectives, will stimulate dialogue and co-operation among us.

CEPAL has always been intimately committed to this task. Today we wish to renew this commitment, placing ourselves at the government disposal in this enterprise.

It is in this spirit and conscious of the positive contribution which this discussion could have that I venture to suggest to you all that the Commission should proclaim as one of its great tasks for the future the preparation of the Strategy for the Third Development Decade for the region.

Thank you very much.



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