

CEPAL

REVIEW



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22

CEPAL

Review

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Notes and explanation of symbols

The following symbols are used in tables in the *Review*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (—) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

References to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.

Individual figures and percentages in tables not necessarily add up to corresponding totals, because of rounding.

A preliminary overview of the Latin American economy during 1983

Enrique V. Iglesias

Executive Secretary, ECLA

In this article, the Executive Secretary of ECLA gives an overview of the evolution of the region's economy during the past year, looking at production, employment, inflation, and especially the external sector.

In his 'Final Conclusions', the author notes that the profound crisis through which the countries of Latin America are passing has forced them to apply adjustment policies aimed at bringing the external sector back into balance. The economic and social consequences of these policies have been exaggerated, however, by the fact that they have had to be carried out at a time of worldwide recession, they have been accompanied by a massive contraction in the net inflow of capital, and they are based on instruments which reduce demand and fail to take advantage of national production capacity.

In order to reverse these trends, the countries should orient their policies towards an 'expansive adjustment' based on a solid process of reactivation. Among the main factors conditioning the achievement of this objective, the author mentions the refinancing of the external debt, the evolution of external trade (both within the region and with the rest of the world), the reduction of inflationary pressures, and the restructuring of growth patterns to strengthen production and export capacity (in this respect, see the Quito Declaration and Plan of Action reproduced elsewhere in this issue of *CEPAL Review*).

The author stresses that in tackling these conditions it is necessary to review both old ideas and some newer ones. With regard to the latter, he reminds readers of the serious consequences brought about by strategies based on extensive financial and trade links with the exterior when the international parameters underwent a sudden and prolonged change.

I

Introduction

The economic evolution of Latin America in 1983 was characterized by two main features. The first was the aggravation of the crisis which began in 1981 and which by 1982 had become the most serious one experienced since the Great Depression of the 1930s. The second was the remarkable effort made by most of the countries of the region to reduce the serious imbalances that had been building up in the external sector over the last few years.

In 1983, as in 1982, the crisis affected almost every country of the region and was evidenced in the deterioration of the main economic indicators. Thus, according to the preliminary estimates available to ECLA, which are shown in table 1, the gross domestic product of Latin America as a whole dropped by 3.3%, after having already decreased by 1% in 1982; as a result of this drop and of population growth, the per capita product fell by 5.6% in the region as a whole and declined in 17 of the 19 countries for which comparable information is available.

In consequence of this downward movement and of the fact that it had also fallen during the two preceding years, the per capita product of Latin America was almost 10% lower in 1983 than in 1980 and was back at the level the region had reached in 1977. National per capita income dropped even more sharply (-5.9%), as 1983 brought a further deterioration, for the third year in a row, of the terms of trade for the region as a whole, and, for the sixth year in a row, of the terms of trade of the non-oil-exporting Latin American countries. The terms of trade for the latter showed a total decline of 38% by comparison with 1977 and, for the second year in a row, sank even below the level reached during the worst times of the Great Depression.

The slowdown of economic activity was accompanied by a new rise in urban unemployment rates in almost every country for which relatively reliable data are available. In spite of this, inflation accelerated spectacularly, as it had over the last three years, reaching record highs. The simple average rate of increase of consumer prices climbed from 47% in 1982 to 68% in 1983 and the rate weighted by population soared even more sharply, from 86% in 1982 to 130% in 1983.

In its turn, the extraordinary effort made by the region to adjust to these problems was reflected in radical changes in the external sector. Thus, in 1983 Latin America achieved an unprecedented merchandise trade surplus. Merchandise trade, which up to 1981 had regularly shown

a negative balance, but which by 1982 had recorded a surplus of over US\$ 9.7 billion, generated a surplus of almost US\$ 31.2 billion in 1983 (see figure 1). This surplus was exclusively due, however, to a new and spectacular drop in the value of imports of goods, which went down by

Table 1

LATIN AMERICA: MAIN ECONOMIC INDICATORS^a

	1975	1977	1978	1979	1980	1981	1982	1983 ^b
Gross domestic product at market prices (billions of 1970 dollars)	263	292	305	326	345	350	347	335
Population (millions of inhabitants)	303	318	326	334	343	351	359	369
Per capita gross domestic product (1970 dollars)	868	916	936	974	1 007	997	965	911
Per capita gross national income (1970 dollars)	867	918	929	972	1 009	985	938	883
Growth rates								
Gross domestic product	3.7	5.0	4.7	6.6	5.9	1.5	-1.0	-3.3
Per capita gross domestic product	1.2	2.4	2.2	4.0	3.4	-0.9	-3.3	-5.6
Per capita gross national income	-0.3	2.5	1.3	4.6	3.8	-2.4	-4.8	-5.9
Consumer prices ^c	57.8	40.0	39.0	54.1	52.8	60.8	85.6	130.4
Terms of trade (goods)	-14.0	6.0	-10.9	4.4	4.2	-7.3	-7.0	-7.2
Current value of exports of goods	-7.1	18.9	7.5	34.3	30.1	7.0	-8.5	-1.3
Current value of imports of goods	7.0	14.8	13.8	25.8	32.3	7.6	-19.9	-28.7
Billions of dollars								
Exports of goods	35.0	48.2	51.8	69.6	90.5	96.8	88.6	87.5
Imports of goods	40.4	48.3	55.0	69.1	91.5	98.4	78.9	56.3
Trade balance (goods)	-5.4	-0.1	-3.2	0.5	-1.0	-1.6	9.7	31.2
Net profit and interest payments	5.8	8.6	10.5	14.2	19.0	29.1	36.8	34.0
Balance on currents account ^d	-13.7	-11.7	-18.3	-19.6	-27.7	-40.4	-36.4	-8.5
Net capital movement ^e	14.5	17.3	26.4	29.0	29.9	38.0	16.6	4.5
Global balance ^f	0.8	5.6	8.1	9.4	2.2	-2.3	-19.8	-4.0
Global gross external debt ^g	89.4	107.3	133.0	166.4	205.2	257.9	289.4	309.8

Source: ECLA, on the basis of official figures.

^a Product, population and income figures refer to the group formed by the countries included in table 2, except Cuba. Consumer price figures refer to those 19 countries plus Barbados, Guyana, Jamaica and Trinidad and Tobago, except in the year 1982, when Guyana is excluded, and in 1983, when Guayana and Haiti are excluded. The figures for the external sector relate to those 19 countries plus Barbados, Guyana and Trinidad and Tobago, except for the figures on the external debt, which relate to the original 19 countries plus Guyana.

^b Provisional estimates subject to revision.

^c Variation from December to December.

^d Includes net unrequited private transfer payments.

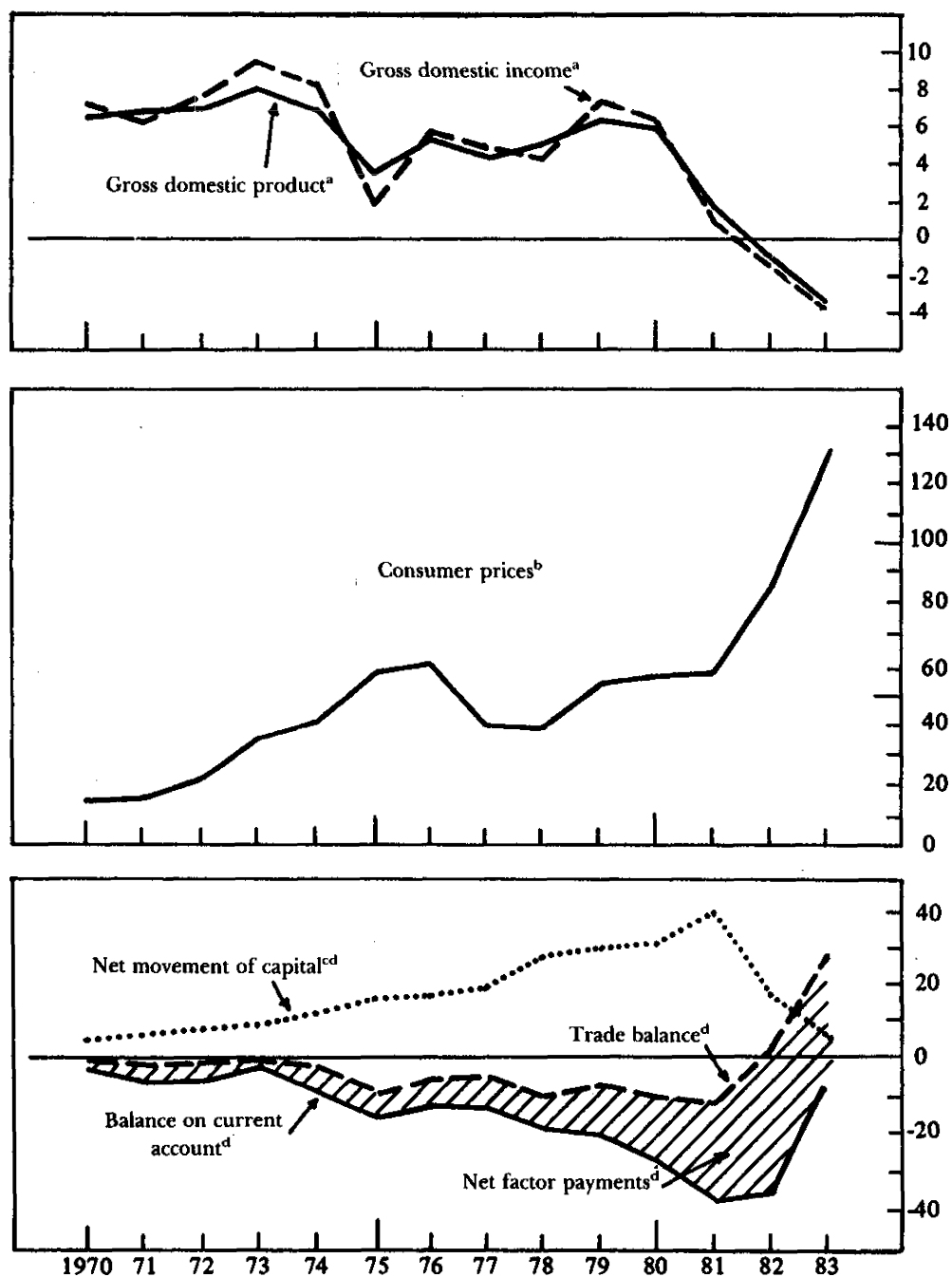
^e Includes long- and short-term capital, unrequited official transfer payments, and errors and omissions.

^f Variation in international reserves (with inverted sign) plus counterpart entries.

^g 1975 to 1980: includes officially guaranteed public and private external debt, plus non-guaranteed long- and short-term debt with financial institutions reporting to the Bank for International Settlements. Does not include guaranteed and non-guaranteed debt with other commercial banks nor non-guaranteed supplier loans. 1981 to 1983: includes official estimates of the total external debt, which means that the figures have a wider coverage and are not strictly comparable with those of the previous period.

Figure 1

LATIN AMERICA: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official information.

^a Annual growth rate.

^b Weighted percentage variation from December to December.

^c Includes short-, medium- and long-term capital, unrequited official transfer payments and errors and omissions.

^d Billions of dollars.

close to 29% after having fallen by 20% in 1982. So unheard-of a reduction in foreign purchases was both an effect and a cause of the shrinkage of domestic economic activity, and reflected the exceptionally strict adjustment policies applied in many countries.

The value of exports of goods, on the other hand, decreased slightly, even though the volume of exports rose by 7% in the region as a whole and by 9% in the non-oil-exporting countries.

Net remittances for profits and interest also went down, so that the exceptionally high rate of growth of previous years was halted. These payments, which between 1977 and 1982 had shot up more than fourfold, from US\$ 8.6 billion to US\$ 36.8 billion, diminished to somewhat under US\$ 34 billion in 1983. Nevertheless, since the value of exports fell at the same time, payments of interest and profits were still equivalent to almost 39% of external sales of goods. As a result of the changes in merchandise trade and in remittances of profits and interest, and of the considerable decrease in net payments for services, the deficit on current account plummeted from US\$ 36.4 billion in 1982 to under US\$ 8.5 billion in 1983, thus reaching the lowest level since 1974. This exceptional reduction of the deficit on current account was accompanied and to

some extent caused by a no less drastic shrinkage of the net inflow of capital. This item, which in 1982 had already been halved, after having reached a record high of US\$ 38 billion in 1981, again dropped sharply in 1983, amounting to not even as much as US\$ 4.5 billion.

Because of this pronounced contraction in the net movement of loans and investments, and despite the substantial reduction of the negative balance on current account, the balance of payments closed with a deficit of almost US\$ 4 billion; although this was much lower than the US\$ 19.8 billion recorded in 1982, it represented a new and dangerous drain on Latin America's international reserves. As had already been the case in 1982, the abrupt decline of the net inflow of capital meant that much less capital came in than was paid out for interest and profits. Consequently, Latin America, which up to 1981 had received a net transfer of real resources *from* abroad, in 1983 made a net transfer of resources *to* the rest of the world of almost US\$ 30 billion.

Also in consequence of the decrease in the net inflow of capital, the growth rate of external debt slackened for the second year in succession, falling to 7%, which was a good deal lower than the 12% growth rate of 1982 and far below the 23% rate recorded, on average, between 1977 and 1981.

II

Main trends

1. *Production and employment*

The slowdown of the Latin American economy, which had already been evident in the two preceding years, was even more pronounced in 1983. After having risen by only 1.5% in 1981—the lowest growth rate since 1940—and fallen by 1% in 1982, the region's gross domestic product dropped by 3.3% in 1983 (see table 2).

As a result of this unprecedented reduction of economic activity and of population growth, the per capita product fell for the third year in

succession, at a much higher rate (–5.6%) than in 1981 (–1%) and 1982 (–3.3%). Consequently, the per capita product was almost 10% lower in 1983 than in 1980.

The exceptional intensity of the decline in economic activity over the last three years was also reflected in decreases in the per capita product of a number of Latin American countries. During this period, the per capita product diminished by over 20% in El Salvador, Bolivia and Costa Rica; by over 15% in Uruguay and Peru; by over 14% in Chile; by around 14% in

Table 2

LATIN AMERICA: EVOLUTION OF GLOBAL GROSS DOMESTIC PRODUCT,
1970-1974 TO 1981-1983
(Annual growth rates)

Country	1970- 1974	1975- 1978	1979- 1980	1981	1982	1983 ^a	1981- 1983 ^{ab}
Argentina	4.0	0.5	4.0	-5.9	-5.4	2.0	-9.0
Bolivia	5.6	5.1	1.2	-1.1	-9.1	-6.0	-15.7
Brazil	11.1	6.4	7.3	-1.9	1.1	-5.0	-5.8
Colombia	6.6	4.9	4.7	2.1	1.2	0.5	3.8
Costa Rica	7.1	5.7	2.8	-4.6	-9.0	-0.5	-13.4
Cuba ^c	8.7 ^d	6.9	3.1	14.8	2.7	4.0	22.6
Chile	0.9	1.7	8.0	5.7	-14.3	-0.5	-9.9
Ecuador	11.5	7.0	5.1	4.5	1.4	-3.5	2.5
El Salvador	4.9	5.5	-5.4	-9.3	-5.2	-1.5	-15.4
Guatemala	6.4	5.5	4.2	0.9	-3.5	-2.5	-4.9
Haiti	4.7	3.3	5.4	0.3	0.3	-0.5	
Honduras	3.9	5.8	4.8	0.4	-0.6	-0.5	-0.5
Mexico	6.8	5.3	8.8	7.9	-0.5	-4.0	3.1
Nicaragua	5.4	1.5	-9.5	8.7	-1.4	2.0	9.3
Panama	5.8	3.5	8.7	4.2	5.5	0.5	10.5
Paraguay	6.4	9.2	11.0	8.5	-2.0	-1.5	4.4
Peru	4.8	1.5	4.0	3.9	0.4	-12.0	-8.3
Dominican Republic	10.1	4.7	5.3	4.1	1.6	4.0	10.0
Uruguay	1.3	4.1	6.0	-0.1	-8.7	-5.5	-13.9
Venezuela	5.4	6.0	-0.4	0.4	0.6	-2.0	-1.1
Total ^e	7.1	4.8	6.2	1.5	-1.0	-3.3	-2.8

Source: ECLA, on the basis of official statistics.

^a Provisional estimates subject to revision.

^b Cumulative variation for the period.

^c Refers to the concept of global social product.

^d Relates to the period 1971-1974.

^e Average excluding Cuba.

Argentina and Guatemala; by almost 12% in Brazil; and by slightly over 10% in Venezuela and Honduras (see table 3).

Furthermore, as in 1982, the downturn in economic activity was widespread. Indeed, the gross domestic product dropped in 14 of the 19 countries for which comparable information is available, remained virtually at a standstill in two of them, and rose slightly in the other three. In

addition, in Cuba the global social product increased by around 4%¹ (see table 2).

Nevertheless, in contrast to what happened in 1982, the decline in the product of the region as a whole in 1983 was due in particular to the highly unfavourable trend in productive activity in Brazil and Mexico, which are by far the two largest economies in Latin America.

In Brazil—which alone generates around one-third of the total domestic product of the region—overall economic activity contracted by around 5%, after having expanded marginally in 1982. This slump, which is without precedent in the last fifty years of Brazil's economic growth,

¹The concept of global social product used in Cuban statistics is equivalent to the sum of gross production in the agricultural, industrial, mining, energy, transport, communications and trade sectors.

Table 3
LATIN AMERICA: EVOLUTION OF PER CAPITA GROSS DOMESTIC PRODUCT^a
1970 TO 1983

Country	Dollars at 1970 prices					Annual growth rates				
	1970	1980	1981	1982 ^c	1983 ^b	1980	1981	1982	1983 ^b	1981-1983 ^{bc}
Argentina	1 241	1 345	1 245	1 159	1 166	-0.5	-7.4	-6.9	0.6	-13.3
Bolivia	317	382	368	326	297	-2.1	-3.7	-11.5	-8.7	-22.2
Brazil	530	958	919	908	844	5.4	-4.1	-1.2	-7.1	-11.9
Colombia	587	824	823	816	802	1.9	-0.1	-1.0	-1.6	-2.7
Costa Rica	740	974	904	801	778	-2.1	-7.2	-11.4	-2.9	-20.1
Chile	967	1 047	1 088	916	897	6.0	3.9	-15.8	-2.2	-14.3
Ecuador	420	732	742	729	683	1.7	1.3	-1.7	-6.3	-6.7
El Salvador	422	432	380	350	335	-11.6	-11.9	-8.0	-4.3	-22.4
Guatemala	439	561	549	515	489	0.7	-2.1	-6.3	-5.1	-12.9
Haiti	123	148	145	142	137	3.3	-2.2	-2.1	-3.1	-7.2
Honduras	313	357	346	332	320	-0.7	-3.0	-4.0	-3.7	-10.3
Mexico	978	1 366	1 436	1 391	1 301	5.5	5.1	-3.1	-6.4	-4.8
Nicaragua	413	341	359	342	338	6.7	5.3	-4.6	-1.4	-0.9
Panama	904	1 154	1 176	1 214	1 194	8.6	2.0	3.2	-1.7	3.5
Paraguay	383	633	665	632	603	7.9	5.1	-4.9	-4.6	-4.7
Peru	659	690	698	683	585	1.2	1.2	-2.2	-14.3	-15.2
Dominican Republic	378	601	611	606	616	3.6	1.7	-0.8	1.6	2.5
Uruguay	1 097	1 423	1 412	1 281	1 200	5.1	-0.8	-9.3	-6.3	-15.6
Venezuela	1 205	1 268	1 230	1 197	1 135	-5.1	-3.0	-2.7	-5.2	-10.5
Total	721	1 007	997	965	911	3.4	-0.9	-3.3	-5.6	-9.5

Source: ECLA, on the basis of official statistics.

^a At market prices.

^b Provisional estimates subject to revision.

^c Cumulative variations for the period.

was due, in particular, to the new and sharp reduction in the volume of imports and the severe cuts made in public sector investment programmes, as well as to the growing uncertainty caused by the acceleration of the inflationary spiral and the prolonged and laborious efforts of the economic authorities to renegotiate the external debt and to enter into a stand-by agreement with the International Monetary Fund.

The gross domestic product also fell markedly (-4%) in Mexico, where economic activity had declined slightly in 1981, after having grown substantially over the previous four years. This contraction was mainly caused by the drastic reduction of domestic demand and of the volume of imports resulting from the re-

strictive policy applied by the government in order to strengthen the balance of payments and control the galloping inflation that had been unleashed during the preceding year. Although the implementation of this policy did succeed in halving the substantial public sector deficit of 1982 and helped to generate an impressive trade surplus, it also brought about considerable reductions in fiscal expenditure, private investment and wages, and a substantial increase in unemployment, with the resulting negative effects on domestic expenditure and the level of activity.

The product declined even more steeply in Bolivia (-6%) and, particularly, in Peru (-12%); in 1983, these two countries suffered from a

singular combination of natural disasters, characterized mainly by torrential rains and flooding in some regions and prolonged and serious drought in others. In addition to these disasters, which had done great damage to agricultural production, Peru was also affected by a change in the ocean currents which caused a sheer drop in the output of the fishing sector. In both countries, economic activity also suffered the impact of galloping inflation, and in Peru the volume of imports plummeted.

The situation was similar, although less serious, in Ecuador, whose domestic product fell by 3.5% because fishing, agriculture and industry in the coastal belt suffered the destructive effects of unusually heavy rains, flooding and tidal waves; inflation reached an unprecedented level (66%), and the quantum of imports brusquely contracted (-25%).

Production and employment trends continued to be very unfavourable in Uruguay. After having remained at a standstill in 1981 and fallen by almost 9% in 1982, the gross domestic product dropped by 5.5% in 1983. As in the previous year, this new decline was caused, in particular, by the substantial decreases in industrial production, construction and commercial services and the very severe contraction yet again shown by the volume of imports, which shrank by 39%, after having dwindled by 30% in 1982 and 14% in 1981. Also as in 1982, the decline of economic activity went hand in hand with a considerable increase in unemployment. As shown in table 4 and figure 2, the unemployment rate in Montevideo, which almost doubled between 1981 and 1982, continued to rise in 1983, exceeding 16% towards the middle of the year.

During 1983, the level of economic activity also fell in Venezuela, whose gross domestic product is estimated to have dropped by around 2%. Since it had remained virtually at a standstill since 1978, the per capita product decreased for the fifth year in succession. As in other countries, two major causes of the decline in economic activity were the sharp contraction in imports—the volume of which was reduced by 60%—and the increased uncertainty generated by the devaluation of the bolívar and the drastic modifications introduced in the exchange system,

which came after a long period of a fixed exchange rate and virtually no restrictions on foreign currency transactions.

In most of the Central American economies, too, the domestic product decreased. Nevertheless, the decline in economic activity was relatively slight and fell far short of the tremendous slumps previously recorded in some of these countries. This change was especially marked in Costa Rica—where the product fell by 0.5% in 1983, after having dropped by around 5% in 1981 and by 9% in 1982—and in Nicaragua, which managed to increase its product by 2%, thus offsetting the downturn it had experienced in 1982. On the other hand, the economy expanded much more slowly (0.5%) in Panama, whose rate of growth in 1982 (5.5%) had been the highest in Latin America.

In Chile, the sharp decline of economic activity, which had begun in mid-1981 and which in 1982 had caused the gross domestic product to drop by over 14% and unemployment to rise just as sharply, was attenuated in 1983 (see table 2 and figure 2). Although economic activity continued to fall during the first half of 1983, it tended to recover slowly after that, as a result of increased public expenditure, lower real interest rates, and the greater protection for activities competing with imports that was provided by the maintenance of a higher real exchange rate, the raising of the general tariff from 10% to 20% and the imposition of higher special tariffs on imports of certain agricultural and industrial goods. Nevertheless, this recovery did not compensate for the lag in economic activity during the first half of the year, and consequently, the gross domestic product dropped by around 0.5% over the year as a whole. In addition, although overt unemployment in Greater Santiago decreased almost constantly, from 25.2% during August-October 1982 to 17.7% a year later, this was mainly due to the expansion, during that period, of the emergency employment programmes carried out by the government, the productivity of which is generally low and in which wages are very low as well.

The recovery of economic activity was much more marked in Argentina, where the product rose by 2%, thanks, in particular, to the fact that

Table 4
LATIN AMERICA: EVOLUTION OF URBAN UNEMPLOYMENT,
1973 TO 1983
(Average annual rates)

Country	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Argentina ^a	5.4	3.4	2.6	4.5	2.8	2.8	2.0	2.3	4.5	4.7	4.9
Bolivia ^b	...	...	...	...	...	4.5	6.2	7.5	9.7	...	12.6
Brazil ^c	...	...	...	...	...	6.8	6.4	6.2	7.9	6.3	6.8
Colombia ^d	...	12.7	11.0	10.6	9.0	9.0	8.9	9.7	8.2	9.3	11.0
Costa Rica ^e	...	...	...	5.4	5.1	5.8	5.3	6.0	9.1	9.9	9.8
Chile ^f	4.8	8.3	15.0	16.3	13.9	13.3	13.4	11.7	9.0	20.0	19.7
Mexico ^g	7.5	7.4	7.2	6.8	8.3	6.9	5.7	4.5	4.2	6.7	12.5
Panama ^h	...	7.5	8.6	9.0	...	9.6	11.9	9.8	11.8	10.4	...
Paraguay ⁱ	...	...	...	6.7	5.4	4.1	5.9	3.9	2.2	...	9.4
Peru ^j	5.0	4.1	7.5	6.9	8.7	8.0	6.5	7.1	6.8	7.0	8.8
Uruguay ^k	8.9	8.1	...	12.7	11.8	10.1	8.3	7.4	6.7	11.9	15.7
Venezuela ^l	...	7.6	8.3	6.8	5.5	5.1	5.8	6.6	6.8	7.8	...

Source: ECLA and PREALC, on the basis of official statistics.

^a Federal Capital and Greater Buenos Aires. Average from April to October; 1983 April.

^b La Paz. 1978 and 1979 second semester; 1980 May to October; 1983 April.

^c Metropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Twelve-month average; 1980 average June to December; 1983 average January to September.

^d Bogotá, Barranquilla, Medellín and Cali. Average for March, June, September and December; 1983 average for March, June and September.

^e National urban. Average for March, July and November; 1983. PREALC estimate, March to July.

^f Greater Santiago. Average for four quarters; 1983 average January to September. As of August 1983, information refers to the metropolitan area of Santiago.

^g Metropolitan areas of Mexico City, Guadalajara and Monterrey. Average for four quarters; 1982 and 1983 estimated annual average for the country as a whole, on the basis of figures supplied by the Secretariat of Labour.

^h National non-agricultural, except for 1978 and 1979, which refer to the urban sector. The figure for 1980 refers to unemployment in the urban area recorded by the population census and the figures for 1981 and 1982, to the metropolitan area.

ⁱ Asunción, Fernando de la Mora, Lambarey, urban areas of Luque and San Lorenzo. 1983 official estimate.

^j Metropolitan Lima. 1978 average July to August; 1979 August to September; 1980 April; 1981 June; 1982 and 1983 official estimates.

^k Montevideo. Average for two semesters; 1983 average for January to August.

^l National urban. Average for two semesters.

industrial production increased by around 9%. Nevertheless, inasmuch as overall economic activity had dropped by 11% over the previous two years, while manufacturing production had fallen by almost 23% between 1979 and 1982, neither came close, in 1983, to recovering the levels reached in 1977.

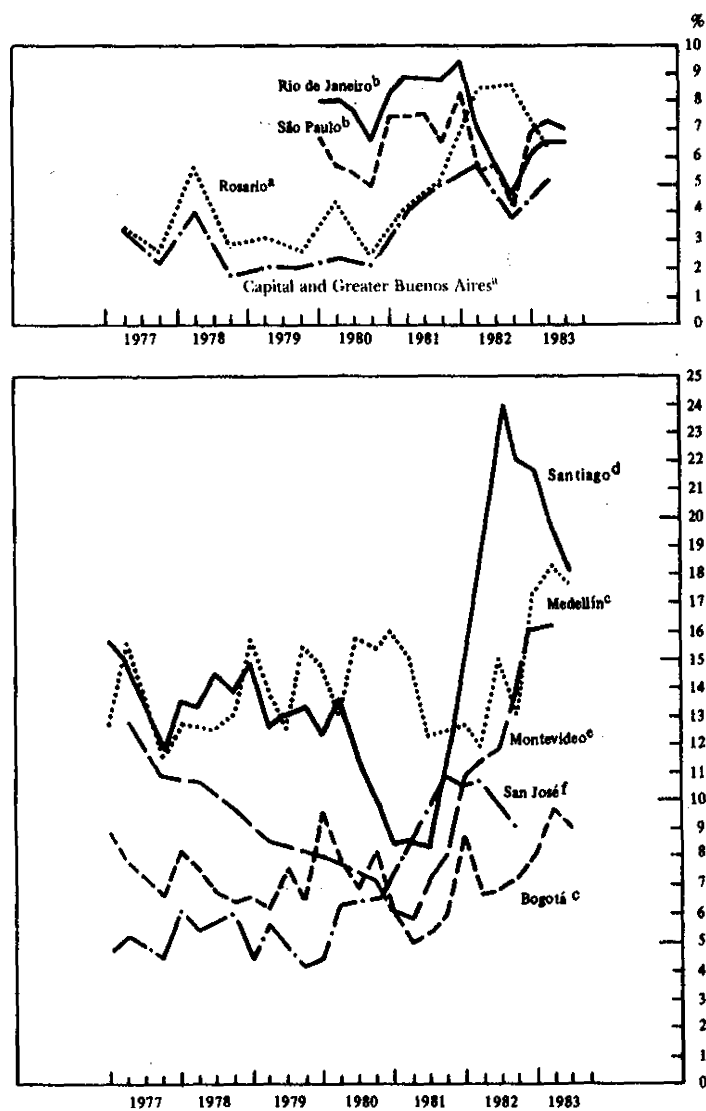
The gross domestic product of Colombia was only slightly higher (0.5%) in 1983 and the country's growth rate declined for the fifth year in succession. The main cause of the slowdown of the economy was the falling-off in industrial pro-

duction, which was affected by the sluggish growth of domestic demand and the reduction of exports to Venezuela and Ecuador, where Colombian manufactures ceased to be competitive after the devaluation of the bolívar and the sucre. As a result of the decline of industrial production and despite the moderate growth of construction, unemployment rose for the second year in a row in the country's most important cities, reaching an average of 11%, the highest figure for the last nine years (see table 4 and figure 2).

Finally, in 1983, economic activity expanded

Figure 2

LATIN AMERICA: QUARTERLY EVOLUTION OF UNEMPLOYMENT
IN PRINCIPAL CITIES
(Unemployment rates)



Source: ECLA on the basis of official information.

^a Figures for April and October 1977 to 1981, Capital and Greater Buenos Aires; 1982, greater Buenos Aires.

^b Averages based on monthly data.

^c Figures for March, June, September and December.

^d Figures for March, June, September and December based on data supplied by the National Statistical Institute.

^e 1977 to 1981: half-yearly data. As of 1981: quarterly averages.

^f Figures for March (I), July (II) and November (IV) for San José, Cartago and Heredia. The figure for November 1979 is the national urban rate.

by 4% in both Cuba and the Dominican Republic, the only two countries of the region, besides Colombia and Panama, that were able to raise their overall levels of production steadily over the last three years.

2. Inflation

Despite the decline of economic activity and the growth of unemployment, and notwithstanding the weakening of inflationary pressures from abroad, the rate of increase of prices continued to speed up in most of the Latin American economies, reaching a new record for the region as a whole in 1983. Indeed, the simple average rate of increase of consumer prices jumped from 47% in 1982 to 68% in 1983, and the rate weighted by the population rose even more sharply, from somewhat under 86% in 1982 to 130% in 1983.

The rate of inflation accelerated with particular virulence in Argentina, Brazil, Peru, Ecuador and Uruguay, and continued to be very high in Mexico and, especially, in Bolivia. On the other hand, it dropped dramatically in Costa Rica, fell moderately but steadily in Colombia and was very low in Barbados, the Dominican Republic and Panama (see table 5 and figure 3).

Consumer prices continued to soar in 1983 in Argentina, so that by the end of November their annual rate of increase was 400%, almost double the figure for the previous year and much higher than the rates recorded in 1975 and 1976. As in previous years, this phenomenon was related to the existence of a considerable fiscal deficit and the spreading of increasingly negative expectations as to future price trends. Thus for the eighth time in the last nine years, inflation in Argentina reached a three-digit level.

Inflation also crescendoed in Brazil. As a result of the swollen public sector deficit, the maxidevaluation of the cruzeiro in February, the continual subsequent increases in the exchange rate, the deterioration of expectations and the complex and generalized indexing system that was in force, consumer prices, which had risen at a rate of around 95% between 1980 and 1982, shot up by 175% during the twelve months ending in November 1983, while the general price index more than tripled in the same period.

The acceleration of inflation was also exceptionally serious in Peru, while the annual rate of increase of consumer prices, after having fluctuated around 70% in 1981 and 1982, rose to almost 125% in October 1983. This notable upswing was the result, in particular, of the much more rapid devaluation policy followed by the economic authorities up to August, as well as of the steep increase in food prices due to the effects of drought and floods.

Although it was much lower in absolute terms than in Peru, Brazil and Argentina, in relative terms inflation rose more sharply in Ecuador. As shown in figure 4, between October 1982 and October 1983 the annual rate of increase of consumer prices more than tripled, rising from 20% to 66%. As in other countries, this acceleration of the inflationary process was largely attributable to the devaluations of the sucre that were enacted as from 1982, after a long period of stability in the exchange rate. In this case, however, a decisive part was also played by the decrease in the supply of agricultural products caused by floods.

Inflation also rose constantly and steeply in 1983 in Uruguay, where the rate of increase of prices, after having shown a steady downward trend between early 1980 and November 1982, turned sharply upward again after the devaluation of the peso at the end of November 1982. Thus, the annual rate of inflation shot up to 63% in November 1983, almost six times the rate that had been reached immediately before the increase in the exchange rate.²

Inflation followed a different trend in Bolivia, where, up to October 1983, prices had risen at an annual rate (249%) that was lower than the rate recorded at the end of 1982 (296%). Nevertheless, the rate of inflation in Bolivia continued to be the second highest in the region. Moreover, as minimum wages were raised by over 70% in November and the exchange rate was increased

²As inflation is expected to be considerably lower in December 1983 than in December 1982 (when prices rose by around 9% after the devaluation of the peso), the annual rate of increase of consumer prices will probably go down to around 55% at the end of 1983.

Table 5
LATIN AMERICA: EVOLUTION OF CONSUMER PRICES,
1975-1983
(Variations from December to December)

Country	1975	1976	1977	1978	1979	1980	1981	1982	1983
Latin America^a	57.8	62.2	40.0	39.0	54.1	52.8	60.8	85.6	130.4
Countries with tradition- ally high inflation	68.9	74.5	47.1	45.7	61.9	61.5	71.7	102.8	153.6
Argentina	334.9	347.5	150.4	169.8	139.7	87.6	131.2	209.7	401.6 ^b
Bolivia	6.6	5.5	10.5	13.5	45.5	23.9	25.2	296.5	249.0 ^c
Brazil	31.2	44.8	43.1	38.1	76.0	86.3	100.6	101.8	175.2 ^b
Colombia ^d	17.9	25.9	29.3	17.8	29.8	26.5	27.5	24.1	17.0 ^b
Chile	340.7	174.3	63.5	30.3	38.9	31.2	9.5	20.7	23.7 ^b
Mexico	11.3	27.2	20.7	16.2	20.0	29.8	28.7	98.8	91.9 ^c
Peru	24.0	44.7	32.4	73.7	66.7	59.7	72.7	72.9	124.9 ^c
Uruguay	66.8	39.9	57.3	46.0	83.1	42.8	29.4	20.5	62.7 ^b
Countries with tradition- ally moderate inflation	8.7	7.9	8.8	9.8	20.1	15.4	14.1	11.4	15.7
Barbados	12.3	3.9	9.9	11.3	16.8	16.1	12.3	6.9	3.5 ^c
Costa Rica	20.5	4.4	5.3	8.1	13.2	17.8	65.1	81.7	12.6 ^c
Ecuador	13.2	13.1	9.8	11.8	9.0	14.5	17.9	24.3	65.9 ^c
El Salvador	15.1	5.2	14.9	14.6	14.8	18.6	11.6	13.8	15.4 ^c
Guatemala	0.8	18.9	7.4	9.1	13.7	9.1	8.7	-2.0	0.0 ^b
Guyana	5.5	9.2	9.0	20.0	19.4	8.5	29.1	...	...
Haiti	-0.1	-1.4	5.5	5.5	15.4	15.3	16.4	-1.7 ⁱ	...
Honduras	7.8	5.6	7.7	5.4	18.9	15.0	9.2	9.4	9.6 ^c
Jamaica	15.7	8.3	14.1	49.4	19.8	28.6	4.8	7.0	12.1 ^c
Nicaragua	1.9	6.2	10.2	4.3	70.3	24.8	23.2	22.2	...
Panama	1.4	4.8	4.8	5.0	10.0	14.4	4.8	3.7	1.9 ^c
Paraguay	8.7	3.4	9.4	16.8	35.7	8.9	15.0	4.2	14.0 ^j
Dominican Republic	16.5	7.0	8.5	1.8	26.2	4.2	7.4	7.1	2.8 ^k
Trinidad and Tobago	13.4	12.0	11.4	8.8	19.5	16.6	11.6	10.8	16.7 ^c
Venezuela	8.0	6.9	8.1	7.1	20.5	19.6	10.8	7.9	6.4 ^c

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

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

^b Variation between November 1983 and November 1982.

^c Variation between October 1983 and October 1982.

^d Up to 1980, figures represent the variation in the consumer price index for manual workers; from 1981 on, figures represent the variation in the total national CPI, including manual workers and employees.

^e Variation between July 1983 and July 1982.

^f Up to 1982, figures represent the variation in the consumer price index for the city of Quito; in 1983, the national total.

^g Variation between August 1983 and August 1982.

^h Variation between April 1983 and April 1982.

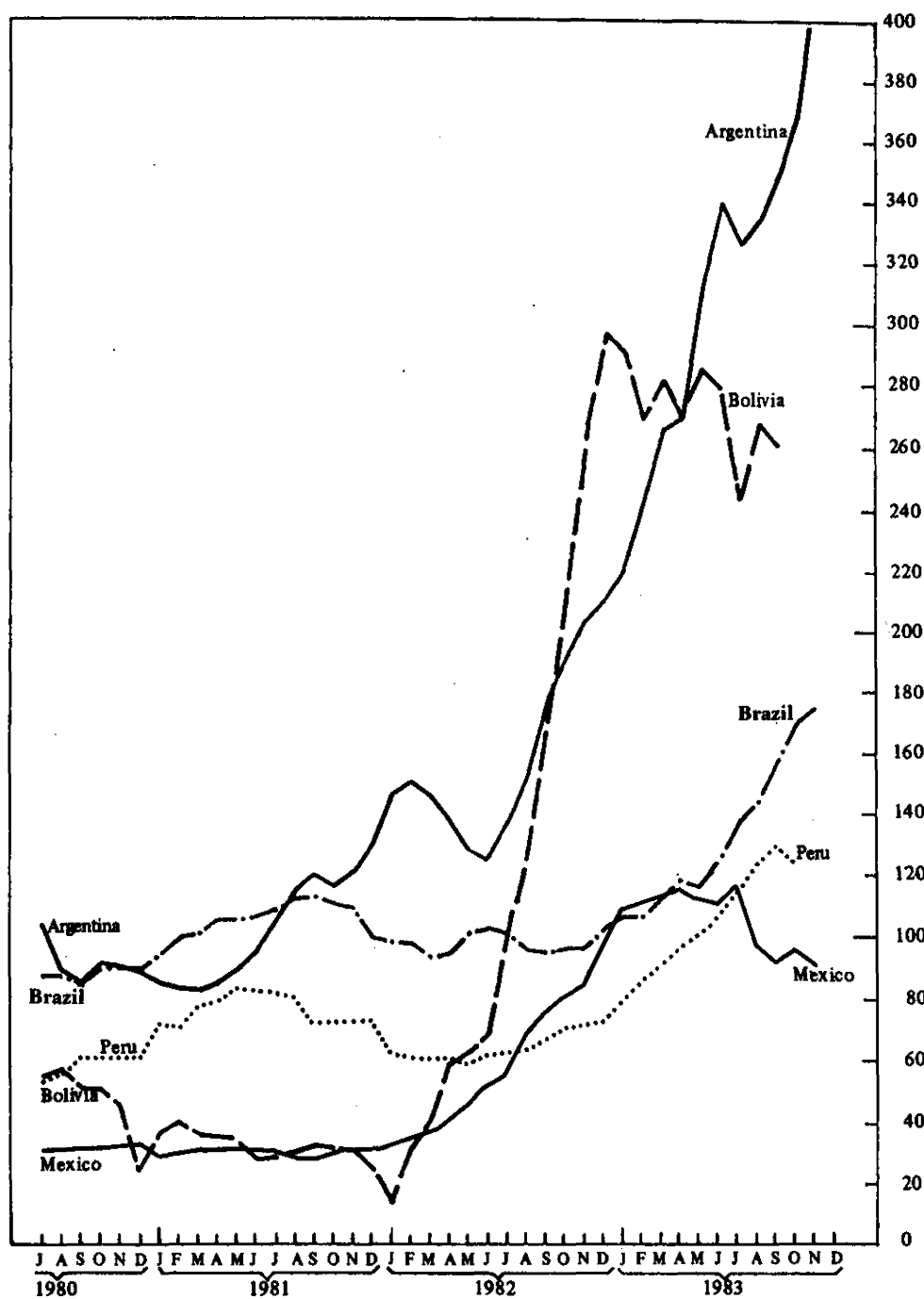
ⁱ Variation between September 1983 and September 1982.

^j Variation between June 1983 and June 1982.

^k Variation between May 1983 and May 1982.

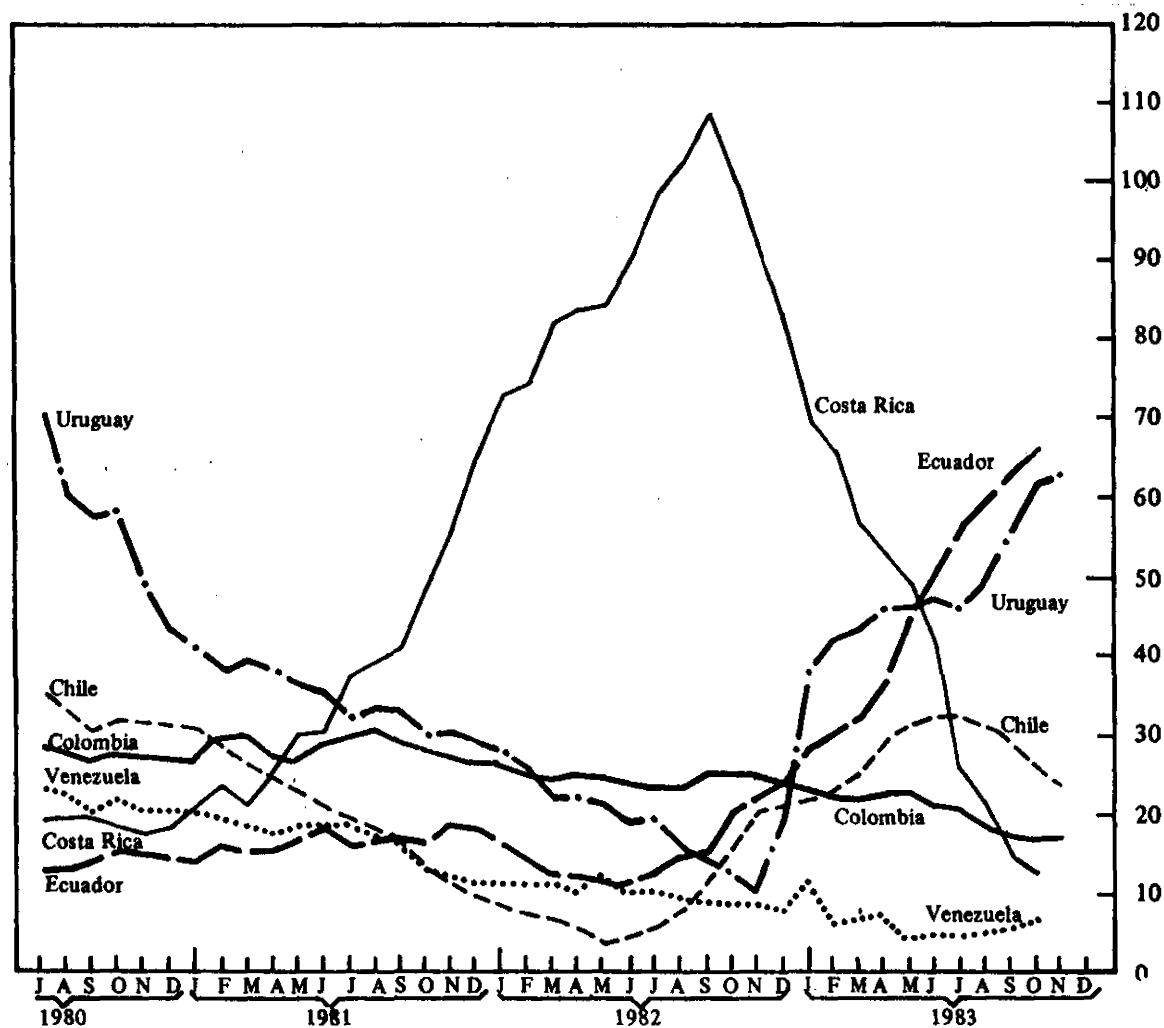
Figure 3

LATIN AMERICA: VARIATIONS IN CONSUMER PRICE INDEX
OVER TWELVE MONTHS IN SELECTED COUNTRIES



Source: ECLA, on the basis of official information.

Figure 4

LATIN AMERICA: VARIATIONS IN CONSUMER PRICE INDEX
OVER TWELVE MONTHS IN SELECTED COUNTRIES

Source: ECLA, on the basis of official information.

by 150% during the same month, after having remained steady for a year, inflation can be expected, over the coming months, to exceed its already high level.

In 1983, inflation also remained very high in Mexico, although it slowed down after the middle of the year. The annual rate of increase of consumer prices reached a record high of almost

120% in July, but subsequently dropped almost steadily, so that it was 92% in November.³ This

³For the same reason as in the case of Uruguay—in December 1982 consumer prices rose by almost 11%—the annual rate of increase of consumer prices will probably have fallen to approximately 80% by the end of 1983.

reversal of the inflationary trend was mainly due to the considerable reduction of the fiscal deficit and the very restrictive wage policy applied by the economic authorities.

The reversal of the inflationary trend was much more definite and spectacular in Costa Rica, where, as in Mexico, the rate of increase of prices had risen with exceptional force in 1982. After having reached an unprecedented level of around 110% in September 1982, the rate of increase of consumer prices fell dramatically and persistently over the following months and in October 1983 dropped below 13% (see figure 4).

The course followed by inflation in Chile was more complex in 1983. Indeed, between June 1982—when the peso was devalued after almost three years of stability—and June 1983, the annual rate of increase of consumer prices climbed steadily from 4% to somewhat over 32%. Nevertheless, as the effect on the cost of tradable goods produced by the sharp rises in the exchange rate which occurred during the second half of 1982 began to wane, and as real wages continued to fall, the rate of inflation began to slow down gradually after August 1983 and sank to under 24% in November.

During 1983, inflation continued to decline gradually but constantly in Colombia, the Latin American country that has had the most stable rate of increase in prices over the last ten years. This reduction in the intensity of the inflationary process occurred despite the fact that the authorities had stepped up the rate of increase of the minidevaluations of the peso in order to strengthen the balance of payments. The increased inflationary pressure that this might have brought to bear was neutralized, however, by the slow growth of domestic demand.

Among the countries that have traditionally had moderate rates of inflation and in which the variations in the domestic level of prices have usually tended to follow those of international inflation, the rate of increase of consumer prices rose slightly in El Salvador and at a higher rate in Jamaica, Trinidad and Tobago and, especially, Paraguay. The rate continued to decline, on the other hand, in Barbados, Panama, the Dominican Republic and Venezuela.

3. *The external sector*

In 1983, Latin America made a tremendous effort to reduce the disequilibria that had been accumulating in the external sector since the late 1970s. Thus, to the higher exchange rates adopted by numerous countries of the region in 1982 were added, in 1983, new devaluations, various other measures aimed at controlling imports and encouraging exports, and strict fiscal, monetary and wage policies directed towards reducing domestic expenditure.

As a result of these adjustment policies, and despite the unfavourable trends in world trade and external financing, in 1983 the region achieved a huge surplus in its merchandise trade, and notably reduced not only its current-account deficit but also the deficit on the balance of payments (see tables 6 and 7).

a) *External trade and the terms of trade*

However, the 1983 surplus of over US\$ 31 billion was only achieved through a drastic reduction of imports, which dropped by almost 29%, after having fallen by 20% in 1982. Since the unit value of imports did not vary in 1983 and since it had decreased slightly in 1982, the contractions in the volume of imports were just as pronounced as those in their total value (see table 8).

The large-scale reduction in both the value and the volume of external purchases was, moreover, a widespread phenomenon. In 1983, the volume of imports fell by over 10% in every country of the region except Bolivia, Costa Rica, Guatemala, Haiti, Honduras, Nicaragua and the Dominican Republic. But even in these countries, where the volume of imports rose, the increase did not offset the substantial reductions that had taken place in 1982.

In countries such as Venezuela, Uruguay, Mexico, Peru, Argentina and Chile, the contraction of the volume of imports was so spectacular as to reveal clearly the enormous magnitude of the adjustment effort that had been made. Thus, the quantum of imports fell by 60% in Venezuela; declined by 39% in Uruguay and by 36% in Mexico, after having already dropped by 30% and 41%, respectively, in 1982; decreased by

Table 6
LATIN AMERICA: TRADE BALANCE
(Millions of dollars)

Country	Exports of goods FOB			Imports of goods FOB			Balance of goods		
	1981	1982	1983	1981	1982	1983	1981	1982	1983
Latin America	96 811	88 592	87 460	98 412	78 852	56 290	-1 601	9 740	31 170
Oil-exporting countries	49 134	46 549	43 900	44 753	36 006	20 670	4 381	10 543	23 230
Bolivia	909	828	790	680	429	500	229	399	290
Ecuador	2 544	2 334	2 300	2 362	2 181	1 630	182	153	670
Mexico	19 938	21 374	21 000	24 038	14 489	9 000	-4 100	6 885	12 000
Peru	3 249	3 230	2 960	3 802	3 787	2 830	-553	-557	130
Trinidad and Tobago	2 531	2 418	2 180	1 748	1 954	1 370	783	464	810
Venezuela	19 963	16 365	14 670	12 123	13 166	5 340	7 840	3 199	9 330
Non-oil-exporting countries	47 677	42 043	43 560	53 659	42 846	35 620	-5 982	-803	7 940
Argentina	9 142	7 598	7 800	8 432	4 873	3 900	710	2 725	3 900
Barbados	163	208	...	521	501	...	-358	-293	...
Brazil	23 276	20 172	22 300	22 091	19 395	16 000	1 185	777	6 300
Colombia	3 219	3 230	2 920	4 763	5 176	4 390	-1 544	-1 946	-1 470
Costa Rica	1 003	871	800	1 090	780	840	-87	91	-40
Chile	3 837	3 706	3 840	6 513	3 643	2 840	-2 676	63	1 000
El Salvador	798	738	720	898	822	880	-100	-84	-160
Guatemala	1 299	1 200	1 130	1 540	1 284	1 140	-241	-84	-10
Guyana	346	276	200	400	320	250	-54	-44	-50
Haiti	150	174	140	358	278	290	-208	-104	-150
Honduras	784	676	690	899	681	680	-115	-5	10
Nicaragua	500	429	440	897	646	710	-397	-217	-270
Panama	343	345	330	1 441	1 441	1 250	-1 098	-1 096	-920
Paraguay	399	396	370	772	711	570	-373	-315	-200
Dominican Republic	1 188	768	820	1 452	1 257	1 280	-264	-489	-460
Uruguay	1 230	1 256	1 060	1 592	1 038	600	-362	218	460

Source: 1981, 1982: International Monetary Fund; figures for Ecuador (1982), El Salvador (1982), Guyana (1982), Nicaragua (1981, 1982) and Trinidad and Tobago (1982), are ECLA estimates. Figures for Chile for 1981, 1982 and 1983: Central Bank of Chile. 1983: ECLA, provisional estimates subject to revision.

27% in Peru and declined by 17% in both Argentina and Chile, in both of which imports had already fallen by around 40% in 1982.

In contrast, the volume of exports rose by 7% in the region as a whole and by 9% in the non-oil-exporting countries. As was the case with respect to the real decline of imports, the increases in the volume of exports mainly reflected the adjustment effort made by the Latin American economies through measures aimed at modifying relative prices for tradable and non-

tradable goods and reducing domestic expenditure.

Nevertheless, the unfavourable evolution of world trade, for a fourth year in succession, and the drop in the international prices of oil and other commodities prevented this increase in the volume of exports from bringing about a similar increase in their value. Indeed, the value of exports fell slightly in the region as a whole and by almost 6% in the group of oil-exporting countries (see table 9).

Table 7

LATIN AMERICA: BALANCE OF PAYMENTS
(Millions of dollars)

Country	Net service payments ^a			Net payments for profits and interest			Balance on current account ^b			Net movement of capital ^c			Global balance ^d		
	1981	1982	1983	1981	1982	1983	1981	1982	1983	1981	1982	1983	1981	1982	1983
Latin America	11 380	9 645	6 360	29 068	36 810	33 950	-40 370	-36 396	-8 460	38 038	16 569	4 470	-2 332	-19 827	-3 990
Oil-exporting countries	6 254	5 148	1 320	11 742	14 391	14 690	-12 791	-9 506	7 050	12 888	-1 635	-6 800	97	-11 141	250
Bolivia	215	122	120	340	415	380	-312	-121	-190	319	153	-250	7	32	-440
Ecuador	487	450	500	722	773	760	-1 027	-1 070	-590	656	742	490	-371	-328	-100
Mexico	1 192	-316	-2 500	8 896	10 429	10 900	-14 075	-3 122	3 700	14 531	237	-1 700	456	-2 885	2 000
Peru	237	213	270	1 020	1 053	1 200	-1 810	-1 823	-1 340	1 138	1 753	1 370	-672	-70	30
Trinidad and Tobago	119	-22	50	190	409	350	407	44	410	291	232	-1 210	698	276	-800
Venezuela	4 004	4 701	2 880	574	1 312	1 100	4 026	-3 414	5 060	-4 047	-4 752	-5 500	-21	-8 166	-440
Non-oil-exporting countries	5 126	4 317	5 040	17 326	22 419	19 260	-27 579	-26 890	-15 510	25 150	18 204	11 270	-2 429	-8 686	-4 240
Argentina	1 702	478	1 000	3 701	4 755	4 800	-4 712	-2 477	-1 900	1 519	1 807	1 900	-3 193	-670	0
Barbados	-239	-253	...	17	19	...	-113	-42	...	101	49	...	-12	7	...
Brazil	2 862	3 589	3 860	10 274	13 494	10 200	-11 760	-16 314	-7 660	12 381	11 121	6 280	621	-5 193	-1 380
Colombia	169	-11	-60	426	580	590	-1 895	-2 291	-1 780	2 328	1 647	-170	433	-644	-1 950
Costa Rica	44	-20	-20	304	345	430	-407	-206	-400	358	331	300	-49	125	-100
Chile	701	555	510	1 464	1 921	1 620	-4 805	-2 372	-1 090	4 942	1 027	440	137	-1 345	-650
El Salvador	110	122	60	100	85	110	-266	-240	-230	217	170	340	-49	-70	110
Guatemala	312	231	190	103	122	120	-567	-376	-270	265	338	260	-302	-38	-10
Guyana	76	66	50	54	55	50	-179	-166	-160	153	160	150	-26	-6	-10
Haiti	69	73	60	13	14	20	-225	-142	-170	168	97	160	-57	-45	-10
Honduras	62	52	50	153	202	190	-321	-249	-220	249	204	200	-72	-45	-20
Nicaragua	82	23	80	93	154	170	-571	-393	-530	677	270	510	106	-123	-20
Panama	-879	-849	-850	228	236	340	-496	-539	-370	423	525	370	-73	-14	0
Paraguay	-22	92	40	29	-14	10	-378	-391	-250	421	329	150	43	-62	-100
Dominican Republic	42	-97	-160	293	254	290	-416	-457	-390	454	311	340	38	-146	-50
Uruguay	35	266	230	74	197	320	-468	-235	-90	494	-182	40	26	-417	-50

Source: 1981, 1982: International Monetary Fund; the figures for Ecuador (1982), El Salvador (1982), Guyana (1982), Nicaragua (1981, 1982) and Trinidad and Tobago (1982) are provisional estimates prepared by ECLA and are subject to revision. Figures for Chile (1981, 1982 and 1983): Central Bank. 1983: ECLA, provisional estimates subject to revision.

^a Excluding net payments for profits and interest.

^b Including net unrequited private transfer payments.

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

^d Variation in international reserves (with inverted sign) plus counterpart entries.

Table 8

LATIN AMERICA: IMPORTS OF GOODS
(Indexes: 1970 = 100 and annual growth rates)

Country	Value				Unit value				Quantum			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
	1983 ^a	1981	1982	1983 ^a	1983 ^a	1981	1982	1983 ^a	1983 ^a	1981	1982	1983 ^a
Latin America	427	7.6	-19.9	-28.7	320	5.7	-2.6	-0.4	133	1.9	-17.8	-28.4
Oil-exporting countries	389	19.3	-19.5	-42.6	268	7.7	-2.0	-0.3	145	10.8	-17.9	-42.4
Bolivia	370	0.0	-37.0	16.6	298	1.9	-2.6	-3.0	124	-1.9	-35.3	20.2
Ecuador	653	5.3	-7.6	-25.3	244	6.7	-0.3	-0.9	268	-1.3	-7.4	-24.6
Mexico	403	27.2	-39.7	-37.8	268	5.7	1.3	-3.9	150	20.3	-40.5	-35.6
Peru	405	24.1	-0.4	-25.2	306	7.8	2.0	2.9	132	15.1	-2.3	-27.3
Trinidad and Tobago	496	0.0	11.8	-29.9	251	3.2	-4.6	-2.9	198	-3.1	17.2	-27.8
Venezuela	312	11.5	8.6	-59.4	261	11.9	-5.7	1.9	119	-0.4	15.2	-60.2
Non-oil-exporting countries	453	-0.5	-20.3	-16.9	362	6.8	-3.2	-4.2	125	-6.9	-17.7	-13.2
Argentina	260	-10.2	-42.2	-20.0	308	2.4	-5.1	-4.0	88	-12.4	-39.1	-16.7
Barbados	...	8.9	-3.9	...	...	6.8	-4.5	...	...	2.0	0.6	...
Brazil	638	-3.8	-12.2	-17.5	430	10.9	-3.6	-4.0	148	-13.2	-8.9	-14.2
Colombia	547	10.8	8.7	-15.2	268	6.2	-4.3	-1.0	204	4.3	13.6	-14.4
Costa Rica	293	-20.7	-28.4	7.7	341	5.0	5.2	-1.0	86	-24.5	-32.0	8.9
Chile	328	19.1	-44.1	-21.9	378	7.2	-7.9	-5.1	87	11.1	-39.3	-17.8
El Salvador	452	0.2	-8.5	7.1	321	4.9	5.7	-2.1	140	-4.5	-13.4	9.4
Guatemala	428	4.6	-16.6	-11.1	346	4.6	6.3	2.9	124	0.0	-21.5	-13.7
Guyana	209	3.4	-19.9	-21.7	326	3.8	-5.3	-3.9	64	-0.4	-15.4	-18.7
Haiti	607	12.3	-22.3	4.4	321	3.2	5.1	0.9	189	8.8	-26.1	3.2
Honduras	334	-5.8	-24.2	-0.2	312	5.8	1.0	-1.0	107	-10.9	-25.0	0.8
Nicaragua	398	11.7	-28.0	10.0	350	3.9	5.0	3.0	114	7.5	-31.4	6.8
Panama	378	9.4	0.0	-13.1	422	2.9	4.8	-1.0	90	6.4	-4.6	-12.3
Paraguay	744	14.4	-7.9	-19.8	333	3.2	3.7	0.0	224	10.8	-11.2	-19.9
Dominican Republic	460	-4.5	-13.4	1.7	324	3.6	2.2	0.0	142	-7.8	-15.3	1.9
Uruguay	295	-4.6	-34.8	-42.3	337	10.9	-7.1	-5.0	88	-13.9	-29.8	-39.3

Source: ECLA, on the basis of official statistics.

^a Provisional estimates subject to revision.

Although the fall in the international price of hydrocarbons had a lot to do with the drop in the unit value of exports in 1983, this was also due to the decline of the international prices of some of the region's major export commodities, such as coffee and sugar, and several minerals. Moreover, the substantial increases in the international prices of bananas, cocoa, maize, fish meal, wool and copper did not in any way, except in the case of bananas, offset the tremendous reductions in the prices of these commodities in previous years (see table 10).

Since the unit value of exports fell much more than that of imports, Latin America's terms of trade declined by slightly over 7%, after having fallen by 5% in 1982 and by 7% in 1981 (see table 11). As in 1982, the decrease in the terms of trade was more pronounced in the oil-exporting countries than in the other economies of the region. Nevertheless, since the terms of trade of the latter had already deteriorated sharply over the last five years, not only was the relevant index around 30% lower in 1983 than in 1978, but it reached the lowest level of the last half-century.

Table 9

LATIN AMERICA: EXPORTS OF GOODS, 1981 TO 1983

(Indexes: 1970 = 100 and annual growth rates)

Country	Value				Unit value				Quantum			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
	1983 ^a	1981	1982	1983 ^a	1983 ^a	1981	1982	1983 ^a	1983 ^a	1981	1982	1983 ^a
Latin America	626	7.0	-8.5	-1.3	314	-2.1	-8.1	-7.7	199	9.5	0.6	7.1
Oil-exporting countries	779	9.0	-5.3	-5.7	534	7.8	-14.2	-7.9	146	1.2	10.4	2.5
Bolivia	415	-3.5	-9.0	-4.6	386	-0.1	-12.8	3.0	108	-3.4	4.4	-7.3
Ecuador	979	0.0	-8.3	-1.5	461	-1.0	-7.6	-8.9	212	1.0	-0.7	8.0
Mexico	1558	24.1	7.2	-1.7	413	15.8	-9.3	-7.9	378	7.2	18.2	6.6
Peru	286	-16.7	-0.6	-8.3	293	-12.1	-11.1	6.1	98	-5.2	11.8	-13.7
Trinidad and Tobago	968	-2.1	-4.5	-9.8	1461	13.8	-3.0	-7.0	66	-13.9	-1.5	-3.1
Venezuela	564	4.8	-18.0	-10.3	1196	12.5	-6.0	-8.9	47	-6.9	-12.8	-1.9
Non-oil-exporting countries	523	5.3	-9.6	3.6	222	-7.0	-6.7	-5.0	236	13.2	-3.3	9.1
Argentina	441	14.0	-16.9	2.8	244	-2.4	-12.0	-7.2	180	16.8	-5.6	10.6
Barbados	...	-10.0	28.0	...	...	2.7	-15.0	...	...	-12.4	50.5	...
Brazil	814	15.6	-13.3	10.5	221	-7.5	-7.2	-7.1	368	25.0	-6.6	19.1
Colombia	371	-20.8	0.3	-9.6	286	-17.7	8.9	-4.9	130	-3.8	-7.9	-4.9
Costa Rica	346	0.2	-13.1	-8.1	254	-10.0	-5.5	2.2	136	11.3	-8.1	-10.0
Chile	345	-18.4	-3.4	3.6	138	-15.3	-17.2	3.3	250	-3.7	16.6	0.3
El Salvador	305	-25.8	-7.5	-2.4	283	-8.3	7.1	-5.1	108	-19.1	-13.7	2.9
Guatemala	380	-14.5	-7.6	-5.8	262	-4.0	-4.0	1.9	145	-11.0	-3.8	-7.6
Guyana	155	-10.9	-20.3	-27.6	371	7.6	-5.9	-3.9	42	-17.2	-15.3	-24.5
Haiti	358	-30.3	15.5	-19.4	250	-15.0	13.7	-10.1	143	-18.0	1.6	-10.4
Honduras	387	-7.8	-13.7	2.0	288	-9.1	0.4	2.1	134	1.4	-14.0	0.0
Nicaragua	246	10.6	-14.2	2.5	247	-1.9	-5.0	-5.0	100	13.0	-9.7	7.9
Panama	253	-8.3	0.4	-4.3	277	1.3	-4.4	1.0	91	-9.5	5.1	-5.6
Paraguay	567	-0.4	-0.6	-6.6	251	10.6	-12.7	-13.0	226	-10.0	13.9	7.3
Dominican Republic	383	23.5	-35.4	6.8	235	9.1	-22.6	-10.0	163	13.2	-16.5	18.6
Uruguay	473	16.6	2.2	-15.6	255	1.3	-4.4	-4.1	186	14.6	6.9	-12.0

Source: ECLA, on the basis of official statistics.

^a Provisional estimates subject to revision.

Indeed, during the period 1980-1983, it was much lower, on average, than it had been during 1931-1933, the most critical period of the Great Depression. Among the oil-exporting countries, on the other hand, the deterioration in the terms of trade during the last two years did not offset the remarkable advance that had been made during the biennium 1979-1980. Thus, in all these economies except Peru, the terms-of-trade index was still much higher in 1983 than in any of the non-oil-exporting countries; in all the oil-

exporting countries taken together, the terms of trade were 16% higher than in 1978, the year preceding the second series of sharp rises in the international price of hydrocarbons.

The new decline in the terms of trade meant that in 1983, the purchasing power of Latin American exports came to a complete standstill, even though the volume of exports had increased by around 7%. Their volume grew even more (9%) in the non-oil-exporting countries, thus marking the resumption of the vigorous

Table 10
 PRICES OF MAIN EXPORT PRODUCTS, 1981 TO 1983
 (Dollars at current prices)

	Annual averages				Growth rates			
	1970-1980	1981	1982	1983 ^a	1980	1981	1982	1983
Unrefined sugar ^b	12.8	16.9	8.4	8.3	95.9	-41.1	-50.3	-1.2
Coffe (mild) ^b	121.8	145.3	148.6	138.9	-2.5	-18.7	2.3	-6.5
Cocoa ^b	86.3	94.2	79.0	93.2	21.0	-20.2	-16.1	18.0
Bananas ^b	11.8	19.2	18.4	21.5	21.2	1.6	-4.2	16.8
Wheat ^c	125.1	178.5	163.0	162.2	7.9	0.6	-8.7	-0.5
Maize ^c	127.5	181.0	137.4	154.0	35.9	-13.9	-24.1	12.1
Beef ^b	82.2	112.2	108.4	111.4	-3.8	-10.9	3.4	2.8
Fish meal ^c	354.7	468.0	353.0	432.0	27.6	-7.1	-24.6	22.4
Soya ^c	232.4	288.0	245.0	258.0	-0.7	-2.7	-14.9	5.3
Cotton ^b	61.2	85.8	72.8	82.0	21.7	-8.9	-15.2	12.6
Wool ^b	131.5	178.2	154.6	144.6	2.1	-8.4	-13.2	-6.5
Copper ^b	69.6	79.0	67.2	75.4	9.6	-19.9	-14.9	12.2
Tin ^d	3.9	6.4	5.8	6.0	8.6	-15.8	-7.8	3.4
Iron ore ^c	18.3	25.9	27.1	25.3	20.4	-10.4	4.6	-6.6
Lead ^b	25.3	33.0	24.8	19.7	24.7	-19.7	-24.8	-20.6
Zinc ^b	29.7	38.4	33.8	32.7	3.0	11.0	-12.0	-3.3
Bauxite ^c	103.5	216.3	208.3	184.9 ^e	39.3	1.8	-3.7	-11.2
Crude oil/								
Saudi Arabia	10.0	32.5	33.5	29.7	68.8	13.2	3.4	-11.3
Venezuela	10.1	32.0	32.0	29.5 ^f	64.3	15.9	0.0	-7.8

Source: UNCTAD, *Monthly Commodity Price Bulletin*, Supplements 1960-1980 and September 1983; International Monetary Fund, *International Financial Statistics*, Yearbook 1981 and October 1983.

^a Average January to August.

^b Dollar cents per pound.

^c Dollars per metric ton.

^d Dollars per pound.

^e Average January to July.

^f Dollars per barrel.

^g Average January to May.

growth which had taken place since the beginning of the 1970s and which had been interrupted in 1982 (see figure 5). Also as a result of this increase in the volume of exports, the purchasing power of the exports of this group of countries rose by 6.5% in 1983. However, this did not come near to compensating for the decline of previous years.

The volume of exports grew much less (2.5%) in the oil-exporting countries and did not offset the impact of the deterioration of their terms of trade which fell by around 7.5%. Consequently,

the purchasing power of their exports fell, for the second year in a row, by approximately 4% (see table 12).

b) *The balance of payments*

Because the value of imports decreased much more than that of exports, the merchandise trade balance underwent another significant change in 1983. After the radical turnabout of 1982, when the US\$ 1.6 billion deficit of 1981

Table 11

LATIN AMERICA: TERMS OF TRADE, 1975 TO 1983
(Indexes: 1970 = 100 and annual growth rates)

Country	Indexes					Annual growth rates				
	1975	1977	1979	1981	1983 ^a	1980	1981	1982	1983 ^a	1979/ 1983 ^{ab}
Latin America	114	128	119	115	98	4.2	-7.3	-7.0	-7.2	-14
Oil-exporting countries	194	197	207	244	199	17.9	0.0	-11.5	-7.9	16
Bolivia	111	120	121	139	129	19.1	-3.0	-11.4	4.8	7
Ecuador	159	195	211	220	189	12.3	-7.4	-7.5	-3.6	10
Mexico	106	123	133	180	154	24.0	9.3	-10.5	-4.3	29
Peru	104	102	117	107	96	11.9	-18.6	-12.8	3.2	10
Trinidad and Tobago	323	318	391	596	582	39.4	9.4	0.9	-3.3	98
Venezuela	335	345	401	513	458	27.1	0.7	-0.9	-10.0	48
Non-oil-exporting countries	81	98	83	67	61	-7.2	-13.0	-7.6	-1.6	-31
Argentina	101	86	81	89	79	16.1	-5.4	-7.8	-3.7	-5
Barbados	165	103	96	97	...	5.6	-4.0	-11.5	...	...
Brazil	85	101	80	56	51	-15.7	-16.7	-3.8	-5.6	-42
Colombia	82	190	130	98	107	-2.5	-22.6	13.5	-3.6	-29
Costa Rica	78	122	99	82	74	-2.8	-14.8	-10.1	1.3	-26
Chile	53	51	53	39	37	-8.3	-21.2	-10.8	8.8	-26
El Salvador	87	180	122	91	88	-14.8	-12.7	1.4	-4.3	-34
Guatemala	70	120	96	86	76	-2.7	-8.7	-9.5	-2.6	-33
Guyana	140	118	106	118	114	7.5	3.5	-2.0	-1.7	5
Haiti	93	125	98	82	78	2.4	-18.6	7.0	-11.4	-32
Honduras	91	114	103	91	92	2.9	-14.4	-0.7	2.2	-19
Nicaragua	79	113	92	85	71	-1.4	-5.8	-9.5	-7.8	-27
Panama	111	82	75	74	66	1.2	-2.6	-8.5	-2.9	-12
Paraguay	106	140	111	105	75	-11.3	6.1	-15.8	-11.8	-40
Dominican Republic	149	90	87	108	73	19.2	4.4	-24.2	-11.0	-15
Uruguay	75	81	90	75	76	-9.6	-8.4	1.7	0.0	-11

Source: ECLA, on the basis of official statistics.

^a Provisional estimates subject to revision.

^b Cumulative percentage variations for the period.

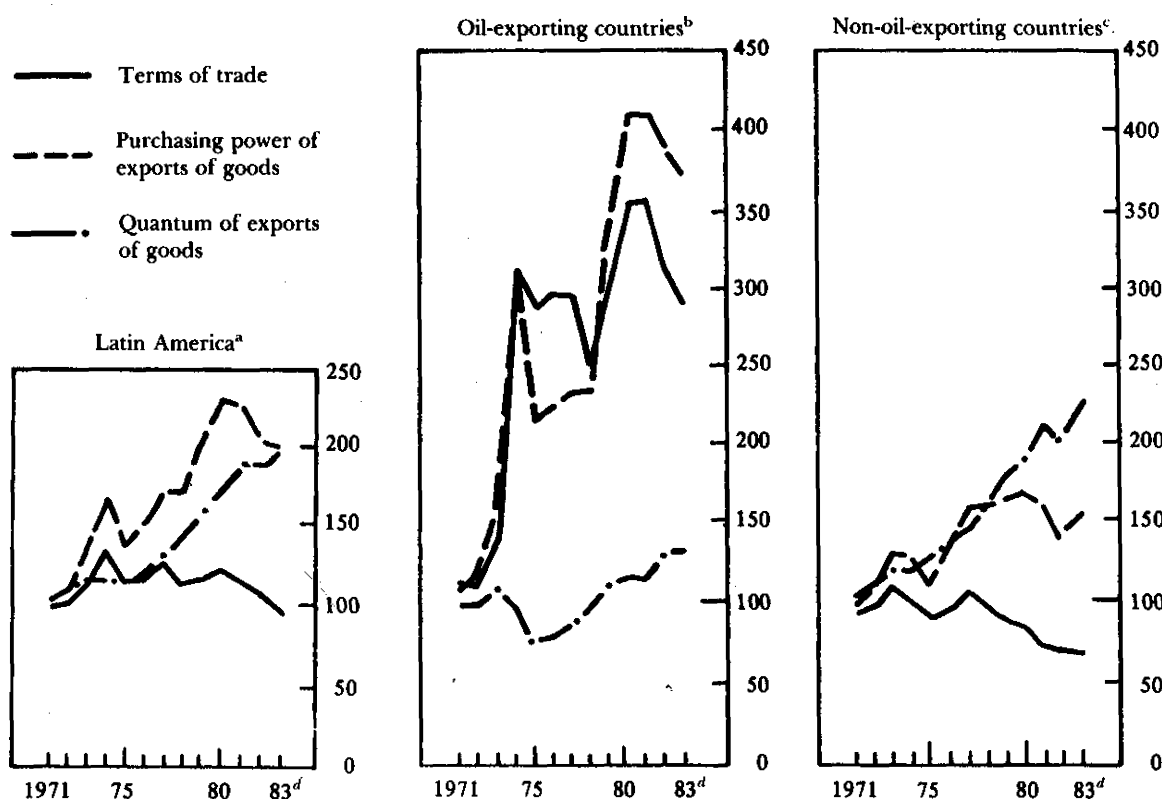
had been replaced by a surplus of over US\$ 9.7 billion, 1983 brought an extraordinary increase in the trade surplus, which amounted to over US\$ 31 billion, more than three times that of the previous year. This was, in particular, the result of the enormous increases in the trade surpluses of Venezuela, Brazil and Mexico, and of the evolution of merchandise trade in Argentina, Chile, Peru, Ecuador and Uruguay. In Venezuela, the trade surplus of over US\$ 9.3 billion almost tri-

pled that of 1982, despite the fact that, as in 1982, the value of exports fell significantly.

In Brazil, on the other hand —where the merchandise trade surplus increased eightfold between 1982 and 1983, from US\$ 780 million to US\$ 6.3 billion— the improvement was due both to an increase in exports and to a decrease in imports. Mexico, which in 1982 had already managed to convert its US\$ 4.1 billion deficit of 1981 into a surplus of almost US\$ 6.9 billion,

Figure 5

LATIN AMERICA: TRENDS OF SOME FOREIGN TRADE INDICATORS
(Indexes: 1970 = 100)



Source: ECLA, on the basis of official information.

^a 19 countries.

^b From 1970 to 1975, includes Bolivia, Ecuador and Venezuela; from 1976 on, also includes Mexico and Peru.

^c From 1970 to 1975, includes 16 countries. From 1976 on, Mexico and Peru are no longer included.

^d Provisional estimate.

raised its positive trade balance to US\$ 12 billion, thanks to the fact that imports again fell very substantially and that exports remained almost unchanged. The trade balances of Chile and Uruguay evolved on much the same lines as that of Mexico, although the absolute amounts of the changes were much lower. Thus, after having had a deficit of nearly US\$ 2.7 billion in 1981 and having achieved a small surplus in 1982, Chile recorded a surplus of around US\$ 1 billion in 1983; during that same period, Uruguay

transformed a deficit of US\$ 360 million into a surplus of US\$ 460 million. In both countries, however, this change in the trade balance was brought about solely as a result of the radical contraction in the value of imports, which between 1981 and 1983 fell by 56% in Chile and by 62% in Uruguay.

The contraction of imports was also the main cause of the new increase in the trade surplus achieved by Argentina, the bigger surplus obtained by Ecuador and the substitution by

Table 12

LATIN AMERICA: PURCHASING POWER OF EXPORTS OF GOODS, 1975 TO 1983
(Indexes: 1970 = 100 and annual growth rates)

Country	Indexes					Annual growth rates				
	1975	1977	1979	1981	1983 ^a	1980	1981	1982	1983 ^a	1979/ 1983 ^{ab}
Latin America	133	164	194	217	196	12.9	-0.9	-6.0	-0.1	16
Oil-exporting countries	169	183	253	318	294	25.3	0.3	-3.8	-4.0	55
Bolivia	133	164	150	155	139	10.0	-6.1	-7.1	-3.1	-6
Ecuador	280	347	441	435	401	5.4	-6.5	-8.3	0.6	11
Mexico	127	181	299	537	581	53.2	17.2	5.8	2.3	155
Peru	74	88	141	108	94	-0.7	-22.9	-2.3	-10.7	8
Trinidad and Tobago	249	265	314	414	385	39.8	-5.7	-0.7	-6.2	53
Venezuela	214	201	258	282	223	16.6	-6.3	-13.5	-8.7	25
Non-oil-exporting countries	110	159	155	148	144	-0.6	-3.9	-8.8	6.5	-10
Argentina	78	135	137	154	142	1.5	10.8	-13.0	6.3	4
Barbados	147	121	153	155	...	20.3	15.8	32.9	...	...
Brazil	135	173	173	186	188	3.4	3.9	-10.2	12.5	11
Colombia	124	177	201	145	139	-3.5	-25.3	4.1	-8.6	-27
Costa Rica	107	173	155	135	102	-8.3	-4.9	-17.8	-9.0	-34
Chile	67	82	109	85	93	0.0	-22.0	3.5	5.1	9
El Salvador	121	209	194	110	95	-19.6	-29.5	-12.7	-1.3	-39
Guatemala	101	195	163	140	110	5.5	-18.6	-12.9	-9.6	-36
Guyana	130	88	86	78	48	4.7	-13.3	-17.9	-25.6	-50
Haiti	99	165	139	129	112	38.8	-33.2	8.5	-20.2	-34
Honduras	94	135	171	142	124	-4.1	-13.4	-14.1	1.4	-19
Nicaragua	113	174	133	87	71	-38.3	6.1	-18.4	0.0	-56
Panama	118	92	89	68	60	-13.5	-11.7	-2.9	-8.6	-34
Paraguay	139	237	228	194	169	-11.4	-4.0	-4.1	-8.9	-33
Dominican Republic	224	176	164	177	119	-8.5	18.0	-36.7	6.3	-16
Uruguay	83	127	131	147	141	6.9	5.0	8.8	-11.9	1

Source: ECLA, on the basis of official statistics.

^a Provisional estimates subject to revision.

^b Cumulative percentage variations for the period.

Peru of a small surplus for its deficit of the previous year.

By contrast with what happened in 1982, when the impact of the change in the trade balance on current account was neutralized, to a large extent, by the sharp increase in payments for interest and profits, in 1983 the part played by the increased trade surplus in reducing the imbalance on current account was reinforced by a decline in financial remittances. Such pay-

ments, which had more than quadrupled over the previous five years, rising from US\$ 8.6 billion in 1977 to almost US\$ 36.8 billion in 1982, fell to a little under US\$ 34 billion in 1983. This was a result of the limitation on remittances of profits caused by the sharp contraction of domestic economic activity and the slight decline in interest payments brought about by the reduction of nominal interest rates on the international financial market. Under these circumstances,

the deficit on current account—which in 1982 had already dropped by 10%, after having reached a record high of US\$ 40 billion in 1981—fell spectacularly to under US\$ 8.5 billion in 1983. Almost all the countries of the region contributed to this outcome, either by vigorously reducing their current-account deficits; or, as in the case of Mexico and Venezuela, by replacing deficits by large surpluses; or, as happened in Trinidad and Tobago, by increasing their surpluses. The only exceptions to this general trend were Bolivia, Costa Rica, Haiti and Nicaragua, which showed bigger current-account deficits than in the previous year.

Nevertheless, the drastic reduction of the deficit on current account which took place in 1983 was also due, to a very large extent, to a no less radical reduction, for the second year in a row, of net movements of capital. Between 1981 and 1982, capital flows had already fallen from US\$ 38 billion to US\$ 16.6 billion and in 1983 they dropped to under US\$ 4.5 billion.

As in 1982, the net total of investments and external loans was much lower than net payments for interest and profits, which meant that in 1983 Latin America transferred real resources abroad to an amount of almost US\$ 29.5 billion, 46% more than the already very substantial sum transferred in 1982.

In 1983, the net inflow of capital was also smaller than the deficit on current account, a situation which had already occurred in both 1981 and 1982. Consequently, the global balance of payments closed with a deficit for the third year in succession. Although the total of slightly under US\$ 4 billion was equivalent to one-fifth that of 1982, it was over 70% higher than the negative balance in 1981 (see table 7).

c) *The external debt*

According to very provisional estimates, by the end of 1983 the total external debt of Latin America amounted to approximately US\$ 310 billion. It is estimated to have grown by about 7% during the year, a rate that was much lower than the 12% of 1982 and far below the growth rate of around 23% which was the average during the period 1977-1981 (see tables 1 and 13).

This sharp drop in the growth rate of the

Table 13

LATIN AMERICA: TOTAL EXTERNAL DEBT, 1981 TO 1983 (End-of-year balance in millions of dollars)

Country	1981	1982	1983 ^a
Latin America	257 890	289 437	309 800
Oil-exporting countries	116 777	128 948	134 500
Bolivia ^b	2 450	2 373	2 700
Ecuador ^c	5 756	5 788	6 200
Mexico ^d	72 007	81 350	85 000
Peru ^c	8 227	9 503	10 600
Venezuela ^c	28 377	29 934	30 000
Non-oil-exporting countries	141 113	160 489	175 300
Argentina ^d	35 671	38 907	42 000
Brazil ^c	65 000	75 000	83 000
Colombia ^d	8 160	9 506	10 300
Costa Rica ^b	2 345	2 603	3 050
Chile ^d	15 542	17 153	17 600
El Salvador ^c	980	917	1 200
Guatemala ^d	765	858	1 000
Guyana ^c	687	689	800
Haiti ^c	326	765	800
Honduras ^b	1 055	1 198	1 500
Nicaragua ^b	2 163	2 789	3 400
Panama ^b	2 333	2 733	3 100
Paraguay ^c	1 120	1 195	1 300
Dominican Republic ^d	1 837	1 921	2 000
Uruguay ^d	3 129	4 255	4 250

Source: ECLA on the basis of official statistics and publications of international financial agencies.

^a Provisional estimates subject to revision.

^b Public debt.

^c Includes officially guaranteed public and private external debt, plus non-guaranteed long- and short-term debt with financial institutions reporting to the Bank for International Settlements.

^d Total public and private external debt.

debt was mainly the result of the restrictive policy adopted by the international commercial banks with respect to Latin America. In 1983, these banks granted virtually no new autonomous loans to the region, channelling their credit through the renegotiations of the external debt initiated by several Latin American countries.⁴

⁴ Between August 1982 and the end of 1983, all the countries appearing in table 13, except Colombia, El Salva-

Under such circumstances, a substantial part of the increase in the debt was accounted for by the fact that the banks capitalized interest payments. This was partly due to the pressure brought to bear by the International Monetary Fund to induce the banks to refinance part (usually around 50%) of the interest earned, as a contribution to

the adjustment programmes sponsored by the Fund.

The need to refinance a considerable portion of the interest payments becomes obvious when one takes into account the tremendous burden which they represent for most of the countries of the region. Indeed, despite the fact that in 1983 interest payments fell, mainly as a result of the slight decline in the prevailing rates on the main international financial markets, they still amounted to the equivalent of 35% of the value of exports of goods and services for the region as a whole (see table 14). Although this is somewhat lower than the 38% which they repre-

dor, Guatemala, Haiti, Panama and Paraguay, requested a rescheduling of their external debt payments. Cuba and Jamaica did so likewise, but are not shown in the table because the necessary information was not available. For a detailed analysis of the renegotiation of the external debt, see Part I of the *Economic Survey of Latin America*, 1982.

Table 14

LATIN AMERICA: RATIO OF TOTAL INTEREST PAYMENTS
TO EXPORTS OF GOODS AND SERVICES,^a 1977 TO 1983
(Percentages)

Country	1977	1978	1979	1980	1981	1982	1983 ^b
Latin America	12.4	15.5	17.4	19.9	26.4	38.3	35.0
Oil-exporting countries	13.0	16.0	15.7	16.5	22.3	31.1	31.0
Bolivia	9.9	13.7	18.1	24.5	35.5	43.5	35.5
Ecuador	4.8	10.3	13.6	18.2	24.3	29.3	25.5
Mexico	25.4	24.0	24.8	23.1	28.7	37.6	38.0
Peru	17.9	21.2	14.7	16.0	21.8	24.7	31.5
Venezuela	4.0	7.2	6.9	8.1	12.7	21.4	19.0
Non-oil-exporting countries	11.9	15.1	18.8	23.3	31.3	46.2	39.0
Argentina	7.6	9.6	12.8	22.0	31.7	54.6	51.0
Brazil	18.9	24.5	31.5	34.1	40.4	57.0	43.5
Colombia	7.4	7.7	10.1	13.3	21.6	22.7	21.5
Costa Rica	7.1	9.9	12.8	18.0	25.5	33.4	43.5
Chile	13.7	17.0	16.5	19.3	34.6	47.2	37.5
El Salvador	2.9	5.1	5.3	6.5	7.5	11.1	10.5
Guatemala	2.4	3.6	3.1	5.3	7.5	7.6	7.5
Haiti	2.3	2.8	3.3	2.0	3.2	2.3	3.5
Honduras	7.2	8.2	8.6	10.6	14.5	22.5	16.0
Nicaragua	7.0	9.3	9.7	15.7	15.5	31.7	36.0
Paraguay	6.7	8.5	10.7	14.3	15.9	14.9	15.5
Dominican Republic	8.8	14.0	14.4	14.7	10.5	22.6	25.0
Uruguay	9.8	10.4	9.0	11.0	13.1	22.4	32.5

Source: 1977-1982: International Monetary Fund, *Balance of Payments Yearbook*; 1983: ECLA, on the basis of official information.

^a Interest includes interest payments on short-term debt.

^b Provisional estimates subject to revision.

sented in 1982, it was higher than the proportions recorded between 1977 and 1981 and much higher than the 20% which is usually considered an acceptable ceiling. The percentage of export earnings which had to be devoted to inte-

rest payments in 1983 was considerably more than the average in Argentina (51%), Brazil (44%) and Costa Rica (44%). On the other hand, it was much lower than the average in El Salvador (10.5%), Guatemala (7.5%) and Haiti (3.5%).

III

External financing and the real transfer of resources

The abrupt adjustment of the balance-of-payments current account which took place in 1983 was enforced, to a large extent, by the no less violent contraction of the net inflow of capital. Indeed, in 1983, the total inflow of capital was barely one-fourth of that received in 1982—which had already been very low—and only 15% of the average inflow of capital during the four-year period 1978-1981 (see table 15). The

negative impact of this sharp drop in the net inflow of capital becomes even more obvious when one compares the amount of capital received with the value represented by net payments of interest and profits, which in 1983 exceeded, for the second year in a row, that of net loans and investments received. Consequently, as in 1982, instead of receiving a net transfer of real resources from abroad, Latin America made

Table 15

LATIN AMERICA: NET FINANCING AVAILABLE AFTER PAYMENT OF PROFITS AND INTEREST, 1973 TO 1983 (Billions of dollars)

Year	Net inflow of capital	Net payments of profits and interest	Net available financing (3) = (1) - (2)	Net real ^a available financing	Exports of goods and services	Net available financing/ exports of goods and services ^b (6) = (3)/(5)
	(1)	(2)	(3)	(4)	(5)	(6)
1973	8.1	4.4	3.7	8.3	30.3	12.2
1974	11.6	5.3	6.3	11.9	46.0	13.7
1975	14.5	5.8	8.7	15.0	43.7	19.9
1976	18.3	7.0	11.3	18.7	49.9	22.6
1977	17.3	8.6	8.7	13.5	58.7	14.8
1978	26.4	10.5	15.9	22.9	64.5	24.7
1979	29.0	14.2	14.8	19.0	85.8	17.2
1980	29.9	19.0	10.9	12.3	110.9	9.8
1981	38.0	29.1	8.9	9.2	119.6	7.4
1982	16.6	36.8	-20.2	-20.4	109.0	-18.5
1983 ^c	4.5	34.0	-29.5	-29.5	107.6	-27.4

Source: IMF *Balance of Payments Yearbook* (several issues); and ECLA estimates, on the basis of official statistics.

^a Obtained by deflating column 3 by the United States wholesale price index, base 1983 = 100.

^b In percentages.

^c Provisional estimates subject to revision.

a net transfer of resources to the rest of the world. Thus, a situation was provoked which, considering the relative development of the region, may be described as perverse.

The amounts involved in this transfer were very large: US\$ 20 billion in 1982 and almost US\$ 30 billion in 1983, i.e., magnitudes equivalent to 19% and 27% of the value of exports of goods and services and between 2.5% and 4% of the gross domestic product. Considered from another angle, the reversal in the direction of net financial payments which took place between 1981 and 1983 was equivalent to a deterioration of the terms of trade by almost one-third.

The deflection of net financial flows was a decisive cause of the widespread contraction of economic activity in Latin America and of the difficulties which some countries experienced in servicing their external debt. As may be clearly seen in table 15, up to 1981 the gross amount of capital received by the region was well in excess of its amortization payments, investments abroad and remittances of interest and profits. During the period 1973-1981, this transfer of resources was equivalent, on average, to 16% of the value of exports, which, in turn, increased during that period at an annual rate of around 20%. Under such circumstances, Latin America was able to make amortization and interest payments on its external debt and on profits earned by foreign capital by means of the new loans and investments it received each year.

The magnitude of this net transfer of resources began to lessen in 1979, when the increases in the net inflow of capital were more than offset by the even larger increases in payments on interest and profits. This trend reached a peak in 1982-1983, when the net in-

flow of capital plummeted and the region had to meet the bulk of its payments for interest and profits from resources originating in the trade surplus or the international reserves it had previously accumulated. Because of the unfavourable external situation, however, the trade surplus was not produced by an increase in exports, but rather by an extremely severe contraction of imports, and this in turn had a negative effect on economic activity. Owing to this chain reaction, the drastic reduction in the net inflow of capital ultimately affected the levels of production and employment.

In turn, the fundamental cause of the decline in net loans and investments which took place over the last two years was the procyclical reaction of the international commercial banks—Latin America's main creditors—*vis-à-vis* the unfavourable external situation with which the region was faced. This attitude was clearly evidenced for the first time in 1982 and persisted in 1983. Thus, according to figures provided by the Bank for International Settlements, new loans granted by private banks to Latin America (excluding Venezuela and Ecuador) fell from US\$ 21 billion during the second half of 1981 to US\$ 12 billion during the first half and barely US\$ 300 million during the second half of 1982.

During the first six months of 1983, the banks granted loans amounting to US\$ 3.7 billion. Nevertheless, this improvement was not the result of a 'spontaneous' response on the part of the banks but rather was accounted for by the fact that the banks were pressured by the International Monetary Fund to contribute to the 'rescue packages' designed by that institution to facilitate the adjustment process in a number of Latin American economies.

IV

Final conclusions

1. The unique profile of the Latin American economic crisis

The figures given above show the unusual scope and depth of the recessive crisis which almost every Latin American country is experiencing and leave no doubt that, for the region as a whole, 1983 was the worst year in the last half century. For most of the countries, the reduction of income during the period 1982-1983 has meant going back to the standard of living of several years ago.

It is true, of course, that in many cases the crisis was partly the result of domestic factors related to ill-advised economic strategies or policies, the prolonged application of which was facilitated by the accelerated growth of external indebtedness and by the international financial permissiveness that prevailed during the 1970s.

It is no less true, however, that the serious balance-of-payments crisis with which Latin America has been faced in recent years may be attributed, to a large extent, to external causes which by their very nature are beyond the control of the countries of the region. Cases in point are the spectacular drop in the terms of trade, the high nominal and real interest rates and the severe contraction of the net inflow of private capital. Even more unpredictable have been the intensity and the duration of this phenomenon, situation which is clearly atypical by comparison with what has happened in the large central countries during previous recessions.

In any event, it is obvious that at this stage of the game, the solution to some of the most serious problems besetting the region will depend mainly on external factors over which the region has little or no control. That is why the domestic economic policy options open to the countries are so complex and fraught with difficulties, and that is also why the prevailing atmosphere today is one of uncertainty and perplexity.

In order to deal with the balance-of-payments crisis, many Latin American countries implemented, as from 1982, drastic and painful adjustment measures whereby imports were re-

duced so dramatically that in many cases the volume of imports fell by over 50% during the last two years. In addition, the sharp devaluations made by many countries in order to balance their external accounts contributed to the reinforcement of inflationary pressures, which led after a time to the application of stabilization policies. Thus, the recessive effect which is normally produced by such policies over the short term was added to that produced by the pronounced decrease in imports. The combination of these factors had another serious consequence: investment slumped, and in some countries a significant proportion of installed capital deteriorated or was destroyed, as many enterprises went out of business.

The social consequences of the current situation have been no less serious. Indeed, in many countries, employment and real wages have fallen to the lowest levels since the Great Depression, and, in some cases, have nearly reached the critical limits of social tolerance.

In some countries the situation has been further aggravated by exceptionally severe natural disasters, which have accentuated the loss of income and the slowdown of the economy caused by the general crisis.

Nevertheless, not everything was negative in 1983. Some countries which had already followed cautious policies with respect to foreign debt were better able to cope with the adverse effects of the international situation. Many others have implemented programmes aimed at adjusting their balance of payments and in this effort have received some co-operation from the international financial community; this has prevented the immediate effects of the crisis from being still. Moreover, a relatively calm atmosphere has been restored on the immediate financial scene; this, of course, does not mean that the problems have been solved or that the risks of acute financial crises have been eliminated.

These and other features of the situation show that the Latin American recession has a profile of its own and that the position in Latin

America is different from that in other regions of the Third World and, as matter of fact, from any similar situation that has arisen since the Second World War.

2. *The questions of the moment*

Latin America has undoubtedly shown a remarkable sense of responsibility in the way that it has responded to the challenges posed by the current external crisis. Suffice it to recall that in the last few years many of the countries implemented sharp real devaluations with a view to promoting their exports, substituting domestic production for essential imports and eliminating non-essential imports. To reduce domestic over-spending and fiscal deficits, they have also substantially raised the prices of many public utilities and reduced a number of subsidies.

Nevertheless, these measures—which, of course, are not easy to implement, politically speaking, and which were oriented towards re-allocating resources to the production of tradable goods—were taken on the assumption that a reactivation of the international economy would facilitate exports and bring back the terms of trade and interest rates to levels closer to those which had been normal in the past.

Unfortunately, this was not the case. Although 1983 saw the beginning of a recovery in the leading central economy, this has not benefited Latin America through any of the above-mentioned mechanisms. Moreover, over the last few years, and especially in 1983, the region has been affected by yet another unfavourable change on the external scene: the drastic reduction of the inflow of capital, the effect of which has been equivalent to a deterioration of the terms of trade by one-third.

Hence domestic adjustment had to be recessive in nature and was based on an unprecedented reduction of imports—even essential ones—and not on an increase in exports. Thus, precisely at the worst time—during an international recession—the region was obliged to generate a substantial trade surplus, to become a net exporter of resources to the central countries, and to accept additional and exceedingly burdensome costs in order to be able to refinance part of the external debt it had accumulated.

It therefore seems only natural that, as 1983

comes to a close, we should ask ourselves the following questions: What can Latin America expect, over the short term, of the current reactivation of the international economy? How long can the indispensable domestic reactivation be postponed if the present situation of the international economy continues to prevail? After the profound traumas of the last few years, will moderate rates of economic recovery be adequate to deal with the acute social problems that have arisen as a result of the recession of the last three years?

i) *What international economic recovery?* International public opinion views the economic recovery of the United States with satisfaction, but also points to the contradictions and puzzles posed by the phenomena which accompany it. On the one hand, the so-called 'locomotive' theory, according to which the United States economy would be dynamic enough to pull along the other industrial centres, shows no sign of having been confirmed at this juncture. There are, moreover, still three elements that are vital if the international recovery is to have any significant effect on the countries of the periphery and, in particular, on the Latin American economies.

In the field of trade, the terms of trade of Latin America have continued to deteriorate—with some exceptions—during 1983 and no substantial increase in commodity prices seems to be in sight in the near future. Furthermore, as a result of certain well-known phenomena, some of which have to do with the high level of real interest rates, protectionist trends in the central countries have persisted and even increased; this detracts from the transparency and dynamism of international trade and particularly hinders the growth of new exports.

In the financial field, real interest rates continue to be very high, as a result of many factors, to wit: the fact that the governments of some industrial countries have resorted to the financial systems to cover their substantial fiscal deficits; the nature of the anti-inflationary policies applied in the large central economies; the disappearance of the liquid surpluses of the oil-exporting countries; the pressure to attract savings in order to cope with new capital-intensive investment; and others. Thus, hardly anyone thinks that in 1984 there will be any considerable reduction of real interest rates, a matter which is

of fundamental importance to the management of the external debt of the developing countries.

In the field of capital transfers, there has been a drastic reduction in the net inflow of capital, which, after having reached an unprecedented level of US\$ 38 billion in 1981, fell to barely US\$ 4.5 billion in 1983; this drop would have been even greater had not the International Monetary Fund prevailed on the commercial banks to increase somewhat their loans to Latin America.

The behaviour of these variables in the reactivation process is fundamental to the viability of the current adjustment processes. It should be reflected that if the terms of trade had been similar in 1983 to what they were in 1980 (25% higher) and if at the same time real interest rates had been similar to those prevailing when the bulk of the debt was contracted (on average, 4 points lower than at present), the region would have had US\$ 25 billion more during 1983; with this amount it could easily have met its commitments without having to reduce its imports so drastically and without having to resort to new external borrowing. In other words, if normal conditions were restored in the areas of trade and finance, Latin America would be able to meet its external commitments without having to sacrifice its potential for growth.

ii) *Latin America cannot continue to contract its economy.* It must be made quite clear that the region cannot go on applying the current adjustment mechanisms for much longer under the existing external conditions. This could lead, at least in some countries, to situations that would be difficult to control, both economically and socially, and could give rise to tensions which would jeopardize the very capacity of the economies to recover and hence to service their accumulated debt on time. It is relevant, therefore, to ask what the main limitations of the current adjustment processes are.

In recent years, the region has had to carry out what essentially amounts to a twofold adjustment. The first and better-known is the adjustment to the extremely unfavourable trend in the terms of trade and in real interest rates. The second has been the adjustment aimed at dealing with a more recent but no less serious development, i.e., the massive withdrawal of the net inflow of private capital. Thus, because the con-

traction of international trade and the 'financial depression' have occurred simultaneously, the region has not only had to adjust but has had, in actual fact, to 'overadjust'.

Because the net inflow of capital shrank so enormously and payments for profits and interest were so high, Latin America—for the first time in 1982 and again and to a greater extent in 1983—made net transfers of resources abroad which amounted to US\$ 20 billion and US\$ 29 billion respectively. This situation, which contrasts sharply with what had historically been the case in the developing countries, has become a key element in the profound depression in Latin America and one which will also be a decisive factor in the establishment of any economic recovery policy to be pursued in the future.

There are also other factors which have contributed to the aggravation of the balance-of-payments problems. Among these, special mention should be made of the high costs and the bank surcharges that are involved in the renegotiation process, which have been added to the negative effects of the high interest rates. This increase in the financial costs—which contrasts with past experience and with the crisis measures normally applied in the case of any enterprise—has aggravated external imbalances and has meant that virtually all the cost of adjustment has been transferred to the debtor countries. Indeed, this procedure is tantamount to an abdication, on the part of the international commercial banks, of their share of the responsibility for triggering the payments crisis with which the region is now faced.

Latin America cannot prolong the current process of recessive adjustment; instead, what it needs is to carry out a growth-oriented adjustment. In so far as it must for some time generate a trade surplus, it will have to achieve this by increasing exports—i.e., by resorting to a factor that helps raise the rate of economic growth—rather than by again reducing imports, which would only make the recession worse.

3. *The indispensable reactivation*

One of the most puzzling questions of the moment is the prevailing uncertainty about the possible modalities and prospects of international reactivation. However, if the current situation

with respect to prices of raw materials, real interest rates and transfers of private capital were to continue, two different courses would probably be followed by the economies of the region in 1984. Some countries whose external situation is better and whose domestic adjustment programmes have been relatively successful could see a modest recovery in their economic growth rate. But because the service of their external debt would represent such a heavy burden, they would have little room left for the recovery of domestic expenditure and hence of employment levels. Other countries which face more difficult external circumstances and, in addition, have to struggle with heavy inflationary pressures, might witness a persistence of recessive trends, and this would aggravate the critical economic and social situation that has prevailed in them in recent years.

In actual fact, neither the first of these options nor much less the second is acceptable. What Latin America needs is a firm and vigorous reactivation policy. Indubitably, however, any recovery process aimed at strengthening the deteriorated regional economy will be conditioned by both external and internal factors. Among the former, the most important and the one which, in the last analysis determines, over the short run, the room for manoeuvre which most of the Latin American governments will have for implementing economic reactivation policies is the rescheduling of the external debt. Over the medium term, on the other hand, the key element for enabling Latin America to achieve rapid and persistent economic growth is the expansion of its external trade, both within the region and with the rest of the world.

Two of the internal factors that shape the effort to put more dynamism into the economy seem to be dominant: firstly, making reactivation programmes compatible with the abatement of inflationary pressures, both traditional and recent; secondly, the restructuring of growth patterns over the medium term required in order to achieve, among other objectives, a substantial increase in the region's export capacity. This second factor is, moreover, the essential requisite for enabling the region to make the service payments on its accumulated debt on time.

It is important to stress, however, that not all the Latin American countries are in the same

situation as regards the servicing of the debt under the current adjustment mechanisms; moreover, the unfavourable international situation does not affect all of them in the same way. That is why it would be very difficult to arrange for a joint rescheduling of Latin America's external debt.

Nevertheless, in view of the absolute necessity of conditioning debt servicing to the requirements of domestic recovery and economic development, the time seems to have come, for many countries, to make global proposals for changes in the existing rescheduling mechanisms. To this end, joint action should in our opinion be undertaken, in accordance with the proposals made by the Group of 24, to promote, in international fora such as those afforded by the International Monetary Fund and the World Bank, measures to improve not only the existing international financial mechanism but also the international environment in which the adjustment processes are carried out.

It would be equally to the point for the countries of the region jointly to put before the international financial community certain minimum conditions that must be met in the immediate future in connection with the adjustment processes, until such time as the conditions on the international commercial financial markets improve. These conditions should include, among others, the following:

- in no case should a country devote to the servicing of its external debt resources amounting to more than a prudent percentage of its export earnings, such as will enable it to maintain the minimum level of imports compatible with its economic recovery and development;
- it should be advocated that the cost of making adjustments be distributed more evenly by drastically reducing the current financial costs that are added to the high interest rates. Consideration should also be given to the possibility of using provisional mechanisms, similar to the interest rate subsidies which were studied during the 1960s, especially for international loans from public sources, and which considerably alleviated the financial burdens, of such vital importance in the current adjustment process;
- amortization periods should be extended

considerably in order to prevent in future the persistence of a perverse transfer abroad of resources;

- firm commitments should be secured with a view to obtaining additional resources which will provide for the financing of a higher proportion of interest payments, facilitate the expansion of trade in the countries of the region, and ensure the financing of satisfactory levels of domestic investment. In this regard, renewed support for the efforts of the World Bank, the Inter-American Development Bank and other regional financing agencies will be of fundamental importance.

In recent times, long-term global solutions have been proposed which have not yet been given proper attention by the large financial centres of the world. Nevertheless, if the current international situation were to continue much longer, the force of circumstances might make some of these alternatives viable. In particular, it would be worth while to consider the possibility of converting a substantial part of the accumulated debt into long-term bonds, with real interest rates near to historical levels and with grace periods for their servicing to begin. This would enable the countries to gain time for undertaking the necessary domestic adjustments and for the measures aimed at increasing their export and import-substitution capacity to take effect.

In any event, the management of the debt under existing international circumstances presents the region with a difficult dilemma. On the one hand, to eliminate the perverse transfers of resources abroad so as to sustain domestic reactivation programmes, it would be necessary to obtain new net credits which would raise the already high level of the existing external debt; on the other hand, in order to meet part of the debt service with resources generated through a trade surplus, it would be necessary, in default of a significant increase in exports, to reduce yet again the already low volume of imports, and this would militate against any effort to reactivate the economy. That is why, over the short term, any effort that is made in this regard must provide for both an inflow of new resources and a substantial abatement of financial costs.

The current preoccupation with the prob-

lems pertaining to the management of the external debt has led the countries to overlook the close linkage that exists between their debt and their trade problems. In the last analysis, the final solution to existing and future balance-of-payments problems can be found only by expanding trade and increasing export income. To achieve this, it will of course be necessary to increase the countries' export capacity; however, it will likewise be necessary to create an international environment in which the markets for Latin American exports can be expanded and their prices can be improved. The protectionist practices that are being increasingly applied in the central countries certainly do not make it easy for these conditions to be met.

Concomitantly with the contraction of Latin America's trade with the rest of the world, there has been a sharp deterioration of regional trade and a recrudescence, in no few Latin American countries, of defensive measures of a protectionist nature prompted by the difficult balance-of-payments situation that almost all these countries are facing.

This state of affairs must not continue. In order to reverse it, the first necessary step would be to call a halt to the imposition of new measures that hinder intra-regional trade, and the second, to adopt various measures of a preferential type, such as *ad hoc* agreements of limited scope or the utilization of State purchasing power. To this end, it will also be essential for the existing regional financial mechanisms to be expanded and for a more imaginative role to be enacted by Latin American financial institutions, some of which are already implementing programmes to support the expansion of intra-regional trade.

These and other joint policies that might be adopted by the region in present circumstances, in order both to promote collectively the adoption of measures at the international level and to accelerate regional co-operation movements and pursue them in greater depth, were analysed at a meeting which, at the invitation of the President of the Republic of Ecuador, was held in Quito in January 1984, and was attended by Heads of State and their personal representatives at the ministerial level. (See the Quito Declaration and Plan of Action in this same issue of the *Review*.)

In the very near future the region will have to deal with a series of factors that will force it to

thoroughly overhaul the development policies and strategies that have been applied up to now. This is essential if a degree of economic dynamism is to be achieved that will enable the region to respond to its serious social problems, which have been aggravated by the current recession.

The not exactly favourable changes that are to be conjectured in international finance and trade; the burden of the accumulated debt (which is, in a way, a mortgage on our future development); the continuance and, in some cases, aggravation of old structural rigidities; and inflationary pressures, the solution to which is hard to reconcile with schemes for development and social justice, are, among others, elements that will require us to revise some of our ideas and to seek and formulate new policies.

In this regard, as has been illustrated by recent experience, it is important to remember the

risks involved in development strategies that are essentially based on indiscriminate international linkage in the fields of finance and trade. These risks are now obvious, considering the violent, prolonged and unpredictable changes that have occurred in the international parameters in which trust was placed.

Nevertheless, it is also of crucial importance to make it quite clear that the current crisis of Latin America is a crisis of liquidity and not one of solvency and that the region has the capacity to respond and the means to deal in future with its main problems. It is to be hoped that the international financial community, recognizing the unique profile of our crisis, will offer intelligent co-operation, consonant with the existing circumstances, that will help us overcome these problems of liquidity so as to prevent the generation of a real crisis of solvency.

Latin American Economic Conference

At the recent Latin American Economic Conference (Quito, 9 to 13 January 1984), twenty-six representatives of Latin American and Caribbean countries signed the "Declaration of Quito" and a "Plan of Action", documents proposing concerted action to face up to the crisis and the adoption of various measures to reactivate the economy and cope with the external debt.

The first step towards the Quito agreements was taken on 11 February 1983, when the President of Ecuador, Mr. Osvaldo Hurtado, asked ECLA and SELA to prepare "a set of proposals designed to develop the response capacity of Latin America and to consolidate its systems of co-operation". On 16 May 1983, the Executive Secretary of ECLA, Enrique V. Iglesias, and the then Permanent Secretary of SELA, Carlos Alzamora, transmitted to the President of Ecuador a joint document entitled "Bases for a Latin American Response to the International Economic Crisis", published in No. 20 of this *Review*. It was also received in Quito by the personal representatives of the Heads of government of the countries of Latin America and the Caribbean. Subsequently, in the Dominican Republic, between 1 and 3 August, the document was revised, and thence emerged the "Santo Domingo Agreement". Inspired by the spirit of this document, the countries of the region agreed to meet in Quito, at the Latin American Economic Conference, for which the bases were prepared in the meantime by a Follow-Up Panel (which had met earlier at San José, Costa Rica), with the technical support of ECLA and SELA.

DECLARATION OF QUITO AND PLAN OF ACTION

The Heads of State or government and the Personal Representatives of the Heads of State or government of Latin America and the Caribbean, meeting in the city of Quito, on 12 and 13 January 1984, at the Latin American Economic Conference convened on the initiative of the Constitutional President of Ecuador, Mr. Osvaldo Hurtado—an initiative which all the governments of the region welcomed with appreciation and enthusiasm—in conformity with the provisions of the Santo Domingo Agreement, in order to prepare a Latin American and Caribbean response to the economic crisis affecting the region, hereby agree to the following.

DECLARATION OF QUITO

1. We reaffirm the brotherhood and solidarity of our peoples and their aspiration to live within a framework of democratic principles, and we reassert our unity in diversity and respect for the sovereign right of all the nations of Latin America and the Caribbean to follow their own economic, social, and political paths in peace and freedom and exempt from all forms of foreign intervention, repudiating politically-motivated discriminatory or coercive economic measures, and ensuring the full exercise of human rights and the benefits of progress for all their inhabitants in an environment free of external pressures, threats and aggression.
2. We reiterate our commitment to eliminate once and for all any recourse to the threat or the actual use of force in the solution of international conflicts. We once again call for disarmament so that the resources squandered on the arms race and armaments can be reallocated to objectives that will help to strengthen the development of all the peoples of the world. There is an essential link between the problems of peace and of development, since without peace, development will be unattainable, and without development, peace will always be precarious.
3. We express our concern over the recrudescence of tensions overshadowing international relations and already engulfing many areas of the earth, thereby constituting a serious threat to world peace. Latin America and the Caribbean are not disposed to serve as an arena for external confrontations, and firmly believe that the region's problems can and must be resolved within its own sphere, thereby ensuring that Latin America will be a zone of peace.

4. We repudiate the interventionism which has recently and dramatically manifested itself in the region, and we stress the need to find a negotiated solution to the problems of Central America that arise from the economic, social, and political conditions prevailing in that area, to which end we lend our full political support to the Contadora Group.

We are aware, moreover, that at the present time the Central American countries are suffering most acutely from the economic problems which are affecting Latin America and the Caribbean. Consequently, we wish to offer our backing to the Action Committee for the Support of Economic and Social Development in Central America (CADESCA), a Latin American regional mechanism recently established as part of SELA to assist, *inter alia*, in mobilizing resources for economic and social development aimed at solving the major problems of the Central American peoples.

5. Latin America and the Caribbean are facing what is the most serious and deep-seated economic and social crisis of this century, characterized by unique and unprecedented features.

6. In face of the economic and social setbacks brought about by this crisis in recent years, we hereby lay before international public opinion our profound anxiety over the conditions prevailing in the world economy which are seriously affecting the region's development and stability.

7. The crisis demands urgent solutions through joint measures founded on regional co-operation and on the forging of a common position designed to strengthen the region's capacity for response. This response must make the most critical conjunctural situations its immediate concern, and at the same time must take a medium- and long-term view directed towards dealing with the structural causes of the crisis as well, international co-operation for development being increased and rendered more effective on terms in keeping with the scope and seriousness of the economic crisis to-day.

8. This crisis originated in internal and external factors, and success in surmounting it is largely dependent on the latter, which are beyond the control of our countries and which place serious constraints upon the options open to us for overcoming it. The economic policies of some industrialized countries have severely affected the developing countries and, in particular, those of the Latin American and Caribbean region, owing to the vulnerability and dependence of its economies and their increasing participation in international economic relations. These policies have brought about a constant deterioration of the terms of trade, a decline in trade itself, an inordinate increase in interest rates and an abrupt reversion of capital flows. The overwhelming burden of our external indebtedness forms part of this picture.

9. The most pernicious social effects of this situation take the form of an unprecedented increase in unemployment, a substantial reduction of real personal income and a severe deterioration of the population's levels of living, with serious and mounting consequences for the political and social stability of our peoples, the persistence of which would have in its turn, still greater negative effects on our economies.

10. In order to make the region more autonomous, we are prepared to mobilize the human and material resource potential of Latin America and the Caribbean so as to formulate a joint response to the crisis affecting us, giving impetus to and co-ordinating the endeavours of regional institutions, in which cause we pledge all our political will.

11. Adjustments resulting in prolonged declines in production, employment and levels of living are not compatible with the objectives we pursue. Consequently, what is required of the international community is concerted action that will enable the countries of the region to resume their development in favourable conditions without further delay.

12. The Latin American and Caribbean response to the crisis is based on the need to complement the efforts of each country and those made at the subregional level by strengthening regional co-operation and integration.

13. This response calls for the firm and resolute participation of all the national sectors of our countries, and its goals will be attained only if the benefits deriving therefrom are fully and effectively extended to the rural and urban underprivileged groups, which must be completely integrated into the development process in order to enjoy a life of human dignity. In this context, the resolve to support, *inter alia*, action aimed at achieving and maintaining regional food security is ratified and assumes particular importance.

14. However, the region's own efforts alone are not sufficient for surmounting the crisis. It is essential that they be complemented and reinforced by significant external support, principally in the areas of trade and financing.

15. There is a close and inseparable link between foreign trade and international finance. Only joint handling of the two factors, which, among other effects, makes it possible to increase our countries' capacity to pay—to which capacity debt servicing must necessarily be adjusted—will contribute to a positive solution of the external debt problem.

16. The attitude of the Latin American and Caribbean governments in recognizing and assuming their obligations calls for an attitude of shared responsibility on the part of the governments of the creditor countries, the international financial institutions and the international private banks respecting the solution of the external debt problem, with due regard, moreover, to its political and social implications. Consequently, flexible and realistic criteria are required in the renegotiation of the debt, including maturities, grace periods, and interest rates, compatible with the recovery of economic growth. Only in this way can the continuity of debt servicing be ensured.

17. We draw attention to the fact that it is neither fair nor rational that the countries of the region have become net exporters of capital, thereby compounding their precarious economic situation, a state of affairs which will finally prove contrary to the interests of the industrialized countries themselves and of the world community.

18. Furthermore, we would indicate that the maladjustment between the fiscal and monetary policies of certain industrialized countries is the cause of the rise in real interest rates, which has persisted despite the fact that inflation has been reduced, and has very severely exacerbated the present situation. We therefore request that the international community make the adjustments necessary to eliminate the causes of this distortion.

19. We reaffirm the urgent need to adopt measures designed to reform the international monetary and financial system.

20. Concurrently with the aggravation of financial problems we are witnessing a stagnation and even an ebb of world trade levels. World trade has recently ceased to play its role as a driving force in the economy and has drastically reduced its contribution to the developing countries' supplies of foreign exchange. The restriction of the developing countries' imports, enforced by the crisis, has lowered trade levels to an even greater extent and has brought about a contraction of their economies.

21. We view with alarm the increase in the protectionist measures of the industrialized countries, which to a great extent have closed their markets to exports from our countries, despite the fact that the volumes exported in no way caused internal problems in the markets in question. We once more urge the industrialized countries to abstain from setting up new protectionist barriers and to proceed to dismantle those already existing.

22. We maintain that measures restricting access to markets and confining the scope of the General System of Preferences through the application of limiting and discriminatory criteria, such as ranking, quotas and reciprocity requirements, should be revoked.

23. The prices of export commodities have dropped to extremely low levels, bringing about successive

deteriorations in the region's terms of trade. In this light, we propose to adopt and promote the multilateral action necessary for dynamic price stabilization, thereby stepping up export earnings.

24. We formally call the attention of the leaders of the industrialized countries to the seriousness of the region's economic situation, its high social cost and the need to participate with all urgency in measures to confront the crisis, both directly through their governments, and through the international organizations.

25. The energy sector is of special importance to the social and economic development of our peoples. The region will intensify its efforts to achieve and maintain a high level of self-sufficiency in energy, with technological autonomy. In this context, recognition is accorded to the importance of supporting the Latin American Energy Organization (OLADE) in attaining its objectives and in implementing the Latin American Energy Co-operation Programme (PLACE).

26. We submit to the international community our conviction that if Latin America and the Caribbean resume their economic development, they will once again become a dynamic element in the much-needed and sound recovery of the world economy.

27. Finally, in the spirit of the Buenos Aires Platform, we express our will to strengthen the unity of the developing countries and to promote a joint strategy for the revitalization and development of the world economy.

We believe that this solemn occasion is proof of the permanent resolve of our countries to maintain, despite all obstacles, the regional unity which is an essential requisite for our development.

We have agreed upon a response that includes challenges and promises. Its implementation is obviously dependent upon the efficiency of our negotiating capacity and on the diligence with which the regional and subregional institutions and organizations carry out the tasks we are entrusting to them here.

Consequently, we respectfully request His Excellency, the Constitutional President of Ecuador, Dr. Osvaldo Hurtado Larrea, to ensure that the Declaration and Plan of Action adopted here be formally transmitted to the Heads of State or government of developing countries members of the Group of 77 and to the Heads of State or government of the industrialized countries, as well as to the appropriate regional and international institutions and organizations.

We request the relevant regional and subregional bodies to prepare progress reports on the execution of the activities and tasks entrusted to them and to transmit them to the Regular Meeting of the Latin American Council of SELA for the purposes of analysis and evaluation of the progress of the Plan of Action.

We wish to thank the People and Government of Ecuador for their magnificent hospitality and the city of Quito for having served as the historic setting for this Conference.

PLAN OF ACTION

The Plan of Action which follows constitutes, as regards intra-regional co-operation, a balanced set of commitments and measures, both in its formulation and in its practical application; it is consistent with differential treatment according to the countries' degree of economic development and is designed to strengthen co-operation and development in the region. The prompt execution of any one of these measures will effectively contribute to the implementation of the rest.

I. FINANCE

1. *The external debt*

a) *Basic criteria*

Responsibility for the external debt problem must be shared both by the debtor countries and by the developed countries, the international private banks and the multilateral financial institutions.

The responsibility of the Latin American and Caribbean countries has already been assumed via drastic economic adjustments and enormous efforts to honour their international commitments, despite the high social, political and economic cost thereby implied.

From these circumstances, and from the need to maintain adequate levels of development in Latin America and the Caribbean and avert worse crises in the international economic and financial system, derives the coincidence of interests, in practice, on the part of the above-mentioned actors in the urgent solution of the region's external debt problem.

Furthermore, the close relation between trade and financing also requires that any solution of the payments problem should adequately combine these two factors and should be of a permanent character.

In future the adjustment process will have to be conducted through an increase in export prices and volumes and a reduction of real interest rates, not through additional restriction of imports that are vitally necessary for reactivation of the internal economy.

The magnitude of the regional economic recession and the persistence of adverse external factors make it imperative that any future arrangements and negotiations respecting the external debt undertaken by our countries on an individual basis should reconcile the demands of debt servicing with each country's needs and development objectives, by reducing to the greatest possible extent the social cost of the current adjustment processes.

In the light of the foregoing considerations, we adopt the following basic criteria:

- i) In renegotiating the external debt, export earnings should not be committed beyond reasonable percentages consistent with the maintenance of adequate levels of internal productive activity, taking into account the characteristics proper to the individual countries' economies;
- ii) Formulas should be introduced to lighten the burden of debt service payments, by drastically reducing interest rates, commissions and spreads of all kinds, which substantially increase re-financing costs. Moreover, mechanisms should be explored to stabilize over time the amount of resources allocated to debt servicing, in accordance with the payments profile of each country;
- iii) Agreement should be reached on servicing periods and maturities substantially longer than at present, and more liberal grace periods, and the possibility of converting a considerable part of the accumulated debt into long-term securities should be urgently explored. This will require the co-operation of the governments of developed countries and of the international financial institutions;
- iv) The maintenance of a net, adequate and increasing flow of new public and private financial resources for all the countries of the region, as an essential component of external debt renegotiations and as a guarantee of the social and economic development of the Latin American and Caribbean countries, should be ensured through the granting of additional commercial and financial credits;
- v) Likewise, in order to strengthen our countries' payment capacity, debt renegotiation should be accompanied by commercial measures essential to improving the terms of access for exports from Latin America and the Caribbean to world markets and by the elimination of increasing protectionist practices on the part of the developed countries.

b) *Exchange of information and technical assistance*

We consider it necessary for the Ministries of Finance or Economic Affairs and the Central Banks of the countries of the region to establish systems of efficient, direct and confidential exchange of information on the terms for refinancing and rescheduling the said countries' external debt.

We also recommend that whenever so requested by any country or countries of the region, the appropriate international organizations, such as SELA, CEMLA, ECLA, UNCTAD and UNDP, as well as the governments of the region, should provide technical assistance in renegotiating the external debt, drawing upon available capacity and experience with the timeliness and urgency required.

Lastly, we recommend that Ministers of Finance or Economic Affairs and Presidents of Central Banks of Latin America and the Caribbean should meet when circumstances so warrant, or should include specific consideration of external debt problems and exchange of information regarding the external debt on the agenda of any meetings they may hold.

2. Support mechanisms for the expansion of intra-regional trade

a) Strengthening of clearing mechanisms

We agree that it is essential to improve and extend the coverage of the present systems for reciprocal settlements and credits in the region by drawing on the experience of the region's clearing systems and temporary financial support arrangements. It will therefore be advisable to expand forms of intervention in order to improve financial co-operation among the countries of the region.

It is hoped that these systems will be instrumental in achieving the following basic objectives:

- i) Further reduce the use of convertible currencies in the region's goods and services transactions;
- ii) To design and implement financial mechanisms aimed at increasing trade in the area; and
- iii) To develop viable mechanisms which may serve to attract extra-regional resources.

Importance should be given to the relationship between multilateral clearing mechanisms and trade negotiations, as well as to the establishment of means for attracting resources from outside the region to complement generalized promotion of trade among our countries.

We agree to strengthen and lend the greatest possible support to the financial clearing and monetary co-operation mechanisms serving the countries of the region.

In addition to studying formulas relating to the possibilities of incorporating other Central Banks which are not members of the existing subregional schemes, we recommend consideration of the following general objectives:

- i) Multilateral clearing of balances on transactions carried out through the system;
- ii) Financing of certain cases of international lack of liquidity by granting special credits, issuing international monetary instruments and attracting financial resources;
- iii) Development of regional economic integration to facilitate commercial and financial exchanges; and
- iv) Establishment of procedures for adjusting the imbalances generated in the course of regional trade by means of expanded trade commitments and specific finance mechanisms.

These objectives shall be considered within the framework of maintenance and strengthening of subregional mechanisms for supporting deficits produced by interregional trade, which will help to give liquidity to goods and services transactions among the countries of the area.

We recommend that ALADI, in co-ordination with other regional financial organizations, submit a study as soon as possible on the possibility of establishing a reserve fund to finance balance-of-payments deficits.

We recommend to the member countries of the ALADI Agreement on Reciprocal Payments and Credits and the Santo Domingo Agreement that they complete the study of formulas which will make it possible for other Central Banks of the region to subscribe to these arrangements, recommending to the said Central Banks that they study the possibility of completing the respective process of concerting bilateral credit lines.

b) Financial support mechanisms for intra-regional trade

In line with the objective of expanding our trade at the regional level, we consider it necessary to strengthen and develop export financing mechanisms and for this purpose request SELA, ECLA, ALADI

and CEMLA, together with BLADEX and the subregional financial organizations, to carry out a study to identify and broaden the scope of existing financing mechanisms and identify new intra-regional instruments to promote exports within the region and to third countries.

This study will be considered at a technical meeting of government officials responsible for foreign trade financing, in conformity with Decision No. 174 of the Latin American Council of SELA.

3. International economic relations

The serious difficulties currently faced by the Latin American and Caribbean countries are closely linked to the structural deficiencies of the international economic relations system in the monetary, finance, and trade areas. In that context, we reaffirm our support for the proposals of the Group of 24 regarding the urgent need to reform the international monetary and financial system with the aim of securing a more equitable world-wide institutional framework to facilitate orderly development of the world economy. We likewise reaffirm our support for the proposals agreed upon at regional and interregional levels, successively put forward in various international forums by the Latin American and Caribbean countries, and taken up in the Buenos Aires Platform resolutions and at the Cartagena Ministerial Meeting for Latin American Co-ordination.

In the present circumstances it is especially important that the following measures be adopted in the monetary and financial, trade and development financing fields:

a) Monetary and financial system

- i) That International Monetary Fund resources be increased in line with the financial assistance requirements of developing countries; and that IMF be urged to participate temporarily in international financial markets with a view to procuring additional resources;
- ii) That new Special Drawing Rights be issued in amounts that will satisfy international liquidity requirements and solve the payment difficulties of developing countries as well as making SDR the main reserve assets;
- iii) That IMF conditionality criteria—which, in present circumstances, can endanger our stability and development—be revised so as to give greater importance to the expansion of production and employment and to take fully into account the countries' development priorities and their political and social limitations, in order that they may realistically cope with the internal adjustment requirements imposed by the present world-wide economic recession;
- iv) That access to IMF resources be made more liberal and more flexible, especially by increasing drawing capacity as a percentage of quotas;
- v) That IMF—to which we shall submit this proposal—effectively perform its functions in respect of monitoring the economic policies of the industrialized countries, with a view to making possible better co-ordination of those policies so as to ensure that the adjustment process is equitable.

b) Trade

The expansion of Latin American and Caribbean exports to the markets of industrialized countries is essential, not only to strengthen our countries' payment capacity but also to ensure the region's sustained and stable development.

We therefore urge the developed countries to abolish their increasing protectionist measures, which hamper and restrict world trade.

The concept of financial and trade ranking applied to the region in various international markets and economic organizations and in certain bilateral relations must likewise be eliminated as being unjust and incompatible with our countries' development requirements, besides limiting their payment capacity.

c) *Development financing*

It is necessary to substantially enlarge the resources of the Inter-American Development Bank and of the World Bank group, and to recommend that the latter increase the proportion of resources it channels into Latin America and the Caribbean. The policies of these organizations regarding the granting of credit must be flexible enough to adapt to national policies and to the development priorities of member countries. In this context we make the following recommendations:

- i) The measures taken by the Inter-American Development Bank and the World Bank for the purpose of establishing special action programmes have benefited the region; however, both institutions should reinforce measures directed towards accelerating disbursements, thereby reducing local counterpart fund requirements;
- ii) The financial institutions which channel their resources into the region should incorporate in their operational policies the principle of significantly increasing programme loans. Furthermore, these institutions should appreciably increase financial resources for the support of multinational development projects;
- iii) The Inter-American Development Bank should play a greater part in strengthening regional co-operation and integration mechanisms. In this connection, provision will have to be made for an increase in financing for development projects or programmes related to export expansion, and for programmes conducive to the strengthening of regional financial and monetary mechanisms;
- iv) In view of the existing financial gap in Latin America and the Caribbean, the resources agreed upon under the VI Resource Replenishment of the Inter-American Development Bank are considered to be insufficient and should therefore be increased without delay.

It is also important to augment the resources of the financial co-operation mechanisms of the United Nations system and to ensure greater flows of concessional resources to the Latin American and Caribbean countries from the mechanisms in question.

We likewise recommend, with regard to subregional financial institutions and national development banks;

- i) That an increase in the flow of additional external resources into investment projects be promoted through co-financing arrangements agreed upon by multilateral institutions and Latin American subregional development financing mechanisms with international private banks;
- ii) That it be made possible, by means of suitable legal instruments, for Latin American resources to be pooled, in the form of both capital and technology, for projects of common interest, through the co-investment mechanism, with the participation of national or subregional financial institutions and of regional and/or extra-regional entrepreneurs or investors.

We therefore consider it of special interest to lend the necessary support to the steps being taken to promote the establishment of intra-regional co-investment mechanisms as a means of contributing to Latin American regional integration.

II. TRADE

1. *Commitment on non-tariff barriers to intra-Latin American trade*

We assume a commitment not to introduce, as from the present date, any new non-tariff restrictions on imports from Latin America and the Caribbean and progressively to abolish or reduce existing restrictions through negotiations whose deadlines, criteria and procedures we engage to adopt within the present year. The fulfilment of this commitment shall not signify any modification of the obligations we have contracted under multilateral or bilateral trade agreements. We shall consult one another whenever emergency situations arise that may impede fulfilment of these commitments.

For the purposes of the present agreement, we shall not consider as additional restrictions on trade any changes in the non-tariff protection structure that any of our countries may be forced to adopt in order to make rational use of its foreign currency reserves or to give its industries the

protection they require in face of the changing international economic situation, taking into account that such modifications will be of a conjunctural and temporary nature and consistent with its obligations within the framework of regional integration agreements, when the case arises.

At its Tenth Regular Meeting, the Latin American Council of SELA will decide upon the negotiations referred to in this section and on the procedure for evaluating their results, with the participation of the Secretariats of the Latin American and Caribbean integration systems.

*2. Increase in exchange of goods and services among the
Latin American and Caribbean countries*

a) Latin American regional tariff preference

We agree on the need for countries of the region to benefit their reciprocal trade by establishing a tariff preference substantial enough to divert and create trade flows in the direction of Latin America and the Caribbean, taking into account the diversity of development levels of the countries of the region.

Consequently, we urge the member countries of ALADI to bring to fruition during 1984 negotiations for establishing the regional tariff preference for which provision was made in Article 5 of the 1980 Treaty of Montevideo, in accordance with resolution No. 5 of the Council of Ministers, through an Agreement of Regional Scope, open to accession by those Latin American and Caribbean countries which are not members of ALADI.

To this end, ALADI will hold consultations with the other Latin American and Caribbean countries and with subregional integration organizations in order to report on the progress made in the said negotiations.

The Latin American and Caribbean countries which are not members of ALADI will be free to participate in the negotiations and in the Agreement for the purpose of implementing the Latin American Tariff Preference referred to in the 1980 Treaty of Montevideo, Article 24.

In the meantime, we agree that each country shall establish, without its entailing a negotiation, a schedule of products to which it would be willing to apply forthwith a significant tariff preference, in consonance with each country's production potential and the inter-country differences in levels of development.

These preferences shall be reviewed in the light of the progress achieved in the negotiations for the entry into force of the Latin American Tariff Preference.

The preferences to which the preceding paragraphs refer shall not imply consolidation of duties nor prevent the participating countries from reforming their tariff structures in accordance with overall economic policy decisions.

The Latin American and Caribbean countries shall make the necessary provision for granting these preferences, in conformity with any multilateral, bilateral, or subregional agreements to which they have subscribed.

b) Trade negotiations

We agree to intensify bilateral or multilateral trade negotiations among our countries for the purpose of achieving a rapid increase in intra-regional trade. We therefore exhort the countries of the region to apply Article 25 of the 1980 Montevideo Treaty.

c) State purchases

We agree to promote, through bilateral or multilateral agreements and within the framework of the integration systems, operational mechanisms that will make it possible to take advantage of State purchasing power by channelling it towards regional suppliers of our imports. To that end, and as soon as possible, the integration systems should conduct the consultations necessary for putting the

aforesaid operational mechanisms into practice, with the participation of those countries that are not members of any integration process.

We agree upon the need to apply, when goods and services are purchased through public tender, a regional preference in favour of Latin American and Caribbean suppliers and enterprises. To this end, the studies necessary for putting the said preference into effect shall be carried out, to the extent allowed by each country's current national legislation and international commitments.

Such studies, which will be prepared by the Permanent Secretariat of SELA, with the collaboration of the competent regional and international institutions, shall be submitted to the decision of the Latin American Council of SELA, and shall take into account, *inter alia*, the following criteria:

- i) The possibility of establishing, in the bases and specifications for bidding, that when tenders are equally matched, the purchasing entity shall grant the Regional Preference to tenders from Latin American and Caribbean enterprises;
- ii) The possibility of establishing, in the bases and specifications for bidding, that the purchasing entity shall retain the right to ask any Latin American firm whose tender takes second place to match the terms and quality of the first, in which case it will be awarded the bid;
- iii) The possibility of establishing other differential clauses in favour of Latin American firms.

d) *Utilization of regional demand and supply in respect of goods*

- i) We agree upon the need to take advantage of regional supply and demand in respect of goods for the following purposes:
 - facilitating the regions's purchases and sales, both within the region itself as well as on the international market;
 - pursuing Latin American industrial development in greater depth;
 - encouraging the fullest possible participation of regional firms in supplying the equipment needed by the countries of Latin America and the Caribbean.

In that context, and considering that conditions as regards demand for capital goods in the electricity generating sector are favourable for initiating joint ventures, according to ECLA studies, we request the Secretariats of that organization and of OLADE to adopt during 1984 all necessary measures in order to define and gradually bring into operation the specific mechanisms appropriate for taking advantage of regional demand for goods in that sector;

- ii) Likewise, we will promote the creation of new Latin American multinational marketing enterprises and the strengthening of those in existence in order to make due use of the bargaining power deriving from joint demand and supply in respect of goods;
- iii) To avoid duplication of effort and to turn informational resources to the best possible account, we request the regional and subregional institutions concerned with this question to co-ordinate their tasks and programmes effectively within the framework of SELA, in order to provide the region with an efficient system of trade information.

e) *Protectionist and discriminatory measures applied to Latin American exports*

We request the Latin American Council of SELA to give further consideration at its Tenth Regular Meeting to the steps that Latin America and the Caribbean should take to counteract the protectionist and discriminatory measures applied by industrialized countries and affecting Latin American exports. These steps shall be based on the studies prepared in this regard by UNCTAD and ECLA.

Within that context, and in the spirit of Decisions 112 and 113 of the Latin American Council of SELA, consideration shall be given to the coercive economic measures applied against the Latin American and Caribbean countries.

f) *Compensated trade and economic complementarity agreements*

We request the General Secretariat of ALADI to complete, in collaboration with ECLA and UNCTAD and in consultation with the technical organs of the subregional integration systems, the analysis of

existing opportunities for compensated trade transactions, with the participation of all Latin American and Caribbean countries, and to report to the governments through the Permanent Secretariat of SELA.

Similarly, action shall be taken to foster the fullest possible economic complementarity among all the countries of the region, taking into special account the possibilities afforded by the 1980 Treaty of Montevideo, Articles 11 and 25.

3. Measures to promote intra-regional trade

We request the appropriate organs of the regional and subregional integration systems, in co-ordination with SELA, to examine ways and means of implementing the measures to which this chapter refers, to adopt the corresponding operational decisions and to promote other initiatives that will broaden intra-regional trade.

We submit a request to the Permanent Secretariat of SELA that it hold, within its institutional framework and with due regard to Decisions 125 and 174 of the Latin American Council, periodic consultations with the officials responsible for foreign trade in the Latin American and Caribbean countries, with a view to promoting other initiatives to expand intra-regional trade, such as agreements on collaboration among the region's production and trade sectors.

Finally, the Latin American Council of SELA, at its Tenth Regular Meeting, will study the possibility of convening a conference especially devoted to foreign trade.

III. REGIONAL FOOD SECURITY

1. We deem it necessary that all Latin American and Caribbean nations should belong to the SELA Action Committee on Regional Food Security (Comité de Acción sobre Seguridad Alimentaria Regional—CASAR), whose objective is, to establish and consolidate the regional food security system.

2. In pursuit of so vitally important an objective, and in order to avoid duplication of effort and make the best possible use of resources, we appeal to all regional and subregional international organizations concerned with food supplies and production in Latin America to co-ordinate their efforts and programmes in the framework of this Committee and the aforesaid regional food security system. This appeal is particularly important for the purpose of providing the region, at the earliest possible date, with an effective food information network and a system of co-operation among national food marketing entities.

3. As support for the integration and consolidation of the regional food security system, stress is laid on the need for each of our countries to formulate national food plans to promote the production of basic foods and to improve their distribution and consumption. In order to facilitate the attainment of this objective, we consider it very important to exchange national experience within the framework of CASAR.

4. We recognize, moreover, that the effectiveness of a regional system will also depend on the efforts made at the subregional level. We therefore emphasize the need for the said regional system to support and complement existing subregional projects and programmes.

5. In order to achieve greater regional self-sufficiency in basic foods, we have decided to give priority to the exchange of food in all action considered by the Conference bearing on the promotion of intra-regional trade, including transport, the elimination of barriers, the establishment of the Regional Tariff Preference and, where relevant, financing.

6. We hope that all the Latin American and Caribbean States which have not yet done so will join the Latin American Multinational Fertilizer Marketing Enterprise (Empresa Multinacional Latinoamericana de Comercialización de Fertilizantes—MULTIFERT S.A.) and will make full use of its services. We likewise hope that the said States will join the Latin American Fisheries Development Organization

(Organización Latinoamericana de Desarrollo Pesquero—OLDEPESCA), so that the agreement setting it up may enter into force and it may begin its activities as soon as possible.

IV. CO-OPERATION IN THE FIELD OF ENERGY

We agree on the need to intensify co-operation for the purpose of achieving regional self-sufficiency in energy and technological autonomy. To this end, the region's capacity to increase and diversify production of energy and rationalize its consumption will have to be strengthened, in order to support its economic development, reduce its dependence on a limited number of energy sources, overcome its vulnerability *vis-à-vis* extra-regional markets and increase the coefficient of technology and capital goods of Latin American and Caribbean origin in the processes of production, transformation and distribution.

In order to achieve these objectives the following lines of action will be pursued:

- i) Strengthening of the energy planning system as an instrument to consolidate the economic development of the region. Although the essential effort is the responsibility of each individual country, co-operation and the exchange of experience are of particular significance;
- ii) Facilitation of the exchange of information in the field of energy, to which end it will be necessary for OLADE to speed up the establishment of the project on the Latin American Energy Information System (Sistema de Información Energética Latinoamericano — SIELA);
- iii) Expansion and improvement of the supply of energy from within the region, with the aim of achieving optimum levels of regional self-sufficiency and promoting the broadening of agreements on reciprocal payments and credits, in the sense of negotiating their inclusion of intra-regional transactions in energy and petrochemical products;
- iv) Promotion of new energy co-operation agreements and identification of multinational energy projects that will give an impulse to integration among the countries of the region. In the field of hydrocarbons, the aim will be to increase storage capacity and to improve refineries in the countries of the region. For this purpose, funds deriving from such agreements will be utilized, *inter alia*, as well as the region's own engineering and construction firms and industrial inputs. These new agreements must be stable and permanent in order to facilitate planning of both energy development and intra-regional trade;
- v) Encouragement of the creation of Latin American multinational petroleum fleets incorporating the region's shipping resources;
- vi) Fostering of agreements among the State-owned corporations of the region that deal with energy in order to strengthen their capacity in respect of technology and of supplying capital goods, taking advantage of the progress already achieved in the region;
- vii) Promotion of the channelling of international financial resources, particularly towards the development and use of new and renewable sources of energy, in order to expand and diversify the energy base of the countries of the region;
- viii) Strengthening of OLADE for the attainment of its objectives and particularly for the implementation of the Latin American Energy Co-operation Programme (Programa Latinoamericano de Cooperación Energética—PLACE), in order to perform the new tasks stemming from the measures decided upon by this Conference;
- ix) Submission of a request to the Permanent Secretariat of OLADE to present a report for the consideration of the Committee of Ministers at its next meeting in March, so that the said Committee can follow up the action taken in the field of energy.

V. SERVICES

Aware of the growing importance of the services sector for the economic development of the countries of the region, and recognizing the need for adopting joint and co-ordinated positions in international institutions really competent to deal with this subject, we deem it necessary to:

- i) Reaffirm the need to adopt a joint regional position with regard to the topic of international trade of services, for which purpose a Latin American Co-ordination Meeting has been called under Decision 153 of the Latin American Council of SELA;
- ii) Co-ordinate the position of the Latin American and Caribbean countries with respect to initiatives or measures that can make viable a genuine process of development of autochthonous technologies in the region, in accordance with the national interests of our countries, particularly where vanguard technologies are concerned;
- iii) Pool efforts to define and put into effect appropriate mechanisms for the dissemination and transfer of new technologies to direct users in the different fields of production;
- iv) Hold consultations among our countries and with the regional and subregional institutions in order to identify specific areas favourable to the promotion of regional and subregional co-operation plans with respect to services, especially in the transport, insurance and reinsurance sectors;
- v) Accord, in the execution of national or multinational projects, preferential treatment to Latin American and Caribbean enterprises that provide services, particularly consultant and engineering firms;
- vi) Request the Inter-American Development Bank to take the necessary steps to establish systems that will help to reduce insurance and reinsurance costs in the region, taking into account those included in the execution of projects financed by the Bank in question.

In any consultations and measures undertaken to comply with the provisions of this chapter, account will be taken of the diversity of national legislation in some of the areas relating to services.

The Crisis in Central America: its origins, scope and consequences*

About two years ago, the ECLA Mexico Office prepared a note in which a warning was given that the Central American economies were beginning to suffer rapid deterioration on account of factors of both external and internal origin, and that if nothing was done to deal with this situation it could imperil the level of economic interdependence reached through the integration programme. In order to lessen or even reverse these depressive tendencies, it was proposed that machinery should be set up to heighten international collaboration, with a view to strengthening the activities which the countries of the region would have to carry out themselves.

Since then, it has been observable that the situation of the Central American economies has been eroded to an even greater extent than was foreseen in that note, that international co-operation has not played the role which was expected of it, and that the degree of economic interdependence previously reached has undergone a decline.

Given the seriousness of the situation, in which are combined an economic and a political crisis that are without precedents in recent times, and in view of the widespread confusion as regards the way to tackle these crises, it has seemed appropriate to go more deeply into their causes, characteristics and consequences, and to put forward some suggestions regarding possible policy options which governments might adopt.

The present article makes no claim to offer global solutions or set models for solving problems of such great complexity; rather does it emphasize the novel nature of the present crisis and formulate some guidelines which could facilitate these countries' adaptation to the changed circumstances inside and outside the region. Within these guidelines, particular stress is laid on the activities which could be embarked upon jointly in order to check further economic deterioration and even, if possible, reverse the negative trends of recent years.

*Prepared by the ECLA Mexico Office

I

Introduction

Central America is passing through a profound crisis in both the economic and the political and social spheres: areas so closely interlinked that it would be idle to try to determine whether one took causal precedence over the other. The fact is that since the beginning of the 1980s the region has been simultaneously sunk into the deepest economic depression and racked by the most serious political upheavals of the last fifty years, so that it is living through a climate of instability and confusion. It is hard to find viable solutions on the political, economic or social level.

The origin, scope and possible consequences of the crisis cannot be understood without analysing the main features of the evolution of the economies and societies of Central America since the war. The first aspect which strikes one is the dynamic growth achieved over a 30-year period—naturally with differences from one country to another—within an atmosphere of financial and monetary stability. A second notable aspect is the decisive influence of external factors, which have been essential determinants not only of economic behaviour, but also of the mutual influence of many political factors. Herein lie the historical roots of the repeated propensity of Central Americans to look abroad for explanations and solutions of the problems that beset them. Furthermore, the fragmentation of Central America—since the short-lived federation broke up—has also contributed to the fact that each of the countries has resigned itself historically to having scant room for manoeuvre with regard to its own destiny, owing to the preponderance of factors beyond its control.

A third remarkable feature is that, in the thirty years since the end of the Second World War, most of the considerable changes undergone by the economies of the region have been simply juxtaposed to the economic and social structure which already existed before, and have made no essential difference to a process referred to in the present article as 'superimposed development'.

Lastly, the fruits of the long period of economic expansion which took place after the Second

World War were distributed in a flagrantly inequitable manner among the different population strata within the framework of a concentrative—or at least exclusive—process which precluded any significant relief of the extreme poverty that persists in the region.

In addition to the foregoing constants, mention must be made of more recent phenomena of internal and external origin which might well herald a break with the development model and with former patterns of political interaction. Thus, there are new challenges to the development of the Central American economies and dangers to political coexistence at the national

and even the regional levels by which all the countries are affected. The crisis could itself give rise to opportunities for improving the situation, however, if innovative responses to the region's economic and social problems materialize.

In the following pages, first and foremost, the features of the period after the war are analysed, and more recent phenomena are then examined. Consideration is next given to short-term prospects and to a number of possibilities for at least reducing the negative effects of the crisis or even seeking to reverse them within the framework of a development model different from that which has prevailed in the past.

II

Features characterizing Central America's development style since the war

1. *Economic dynamism*

The first special feature of the development of the Central American countries during the last three decades was undoubtedly its sustained dynamism. The gross domestic product of the region as a whole grew at an annual rate of 5.3% in real terms between 1950 and 1978, with differences of degree among the various countries (the highest rates corresponding to Nicaragua and Costa Rica and the lowest to Honduras). As a result, per capita real income practically doubled during this period. Even between 1970 and 1978, when the region had to face exceptionally grim problems—the rise in hydrocarbon prices, imbalances in the international financial market, shortages of raw materials and of some foodstuffs in 1974-1975, several droughts and three large-scale natural catastrophes—the real annual growth rate averaged more than 5.6% per year.

Some other features of this growth may also be noted (see figure 1). First of all, during the 28 years in question negative growth rates were recorded only on a very few occasions, almost always associated with some natural disaster (twice in Honduras and once in Nicaragua and Costa Rica). Secondly, while there were frequent

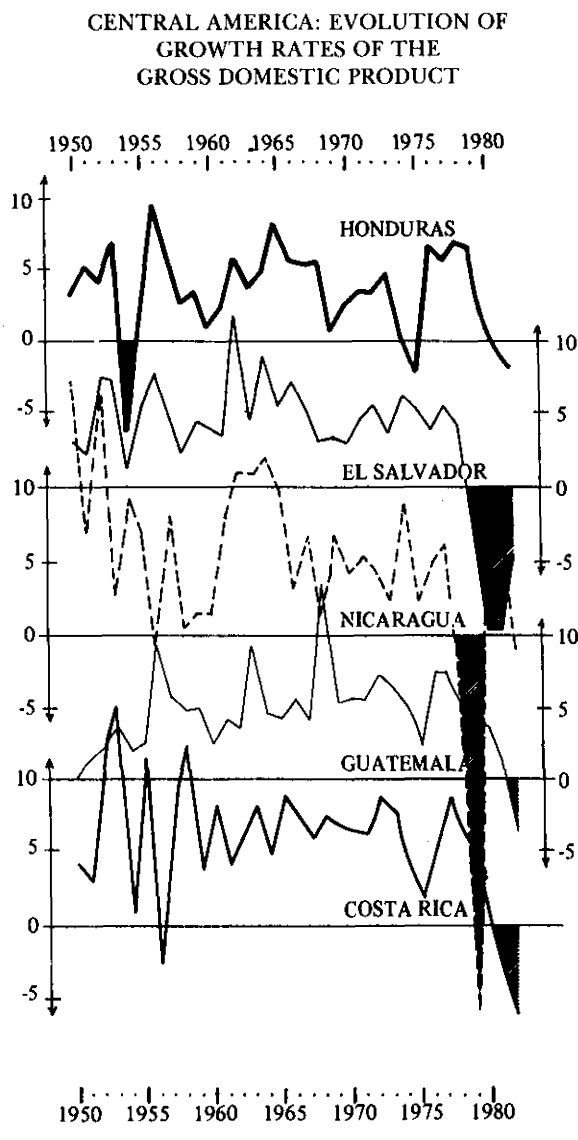
—almost annual—cyclical fluctuations, these took place against a background of notably stable growth. The cyclical downturns were brief; only exceptionally did the product fall for two years running in any of the countries. Lastly, the cyclical evolution of the gross domestic product of the five countries showed great similarity, reflecting both their common form of insertion into the international economy and the high degree of economic interdependence achieved through the integration commitments of the 1950s and 1960s.

The most dynamic sector was generally manufacturing, to which impetus was given by the expanded market and the industrial development policies created as part of the integration process. As a result, the region's degree of industrialization rose from 12.3% in 1960 to 16.8% in 1978.

2. *The decisive influence of the external sector*

The steadiness with which the Central American economies grew largely reflected the long boom in the international economy which followed the Second World War. During that period, the industrialized countries grew at a cumulative

Figure 1



annual rate of 5.0%, while the volume of world trade expanded at a rate of 9.0%. Albeit in different degrees, all the countries of the region managed to take advantage of this situation: the value of their exports of goods and services to countries outside the region increased by a factor of thirteen between 1950 and 1978, rising from US\$ 250 million to US\$ 3.2 billion, while the export sector was significantly diversified, as regards both the composition of its products and

their geographical destination¹. The boom in the traditional export sector also created conditions easy enough to facilitate the bold decision to adopt reciprocal free trade in virtually all products originating from the region within a space of not more than five years. This was responsible for the industrialization drive which eventually became a second source of dynamic growth, although this never ceased to depend ultimately on the evolution of the traditional external sector. The easy economic situation referred to, together with the region's intensive modernization process, likewise helped to create consumption patterns in certain strata of the population which imitated those of more advanced societies and accentuated demand for imported goods.

During the 1960s and 1970s the external sector of the Central American countries underwent significant changes. The relative importance of foreign trade tended to increase—the export and import coefficients for the region as a whole rose from 18.6% and 16.3%, respectively, in 1950 to 30.4% and 33.6% in 1978—;² the structure of exports and imports changed radically—the former included a growing proportion of non-traditional articles, while within the latter the proportion of intermediate and capital goods increased—; intra-Central American trade expanded rapidly until it accounted for a high and mounting percentage of the total exports of each of the countries, inasmuch as it became a more and more important source of the total imports of each; and movements on the capital account acquired progressive significance as the gap in current transactions widened and

¹For the region as a whole, in 1950 the main export product of each country contributed 70% of the total foreign exchange generated by exports of goods. This proportion went down by practically half in 1970 (36.1%), thanks to the diversification of the export sector, although it rose again to 45% in 1978 because of the high prices prevailing that year for coffee, which carries a great deal of weight in the total value of exports. Furthermore, in 1950 80% of Central America's external trade was conducted with a single country (the United States), but this share dropped to 35% in 1978.

²If reciprocal trade is excluded from these figures, the export coefficient for the region as a whole evolved as follows: in 1950, 1960 and 1978, respectively, it was 18.5%, 16.7% and 23.5%; while in the same years the coefficient of imports from outside the region was 16.2%, 19.8% and 27.3%, respectively.

new sources of international financing, both public and private, became available. As a result, the servicing of the external debt began to absorb an increasingly large proportion of the foreign exchange generated by exports of goods and services.

Even so, throughout this period of growth, diversification and change in the external relations of the region, the essential feature of those small agricultural-export economies persisted: the evolution of the external sector largely explained the global economic behaviour of the economy, while the constraints originating in that sector set a limit to the rate of domestic economic activity. A direct relationship is thus observable between the level of exports on the one hand, and the rates of economic expansion, capital accumulation, investment, procurement of fiscal revenue, level of employment and import capacity, on the other.

External financing acted as a shock-absorber during periods of contraction, preventing drops in the value of exports from being reflected automatically in a limitation of the capacity to import (and hence on the growth capacity of the economy), and at the same time it also facilitated the process of 'superimposed development' referred to below. But when a weakening of external demand coincided with a restriction of the flow of external financing (which served at least partly to make up for the fall in exports), the constraints originating in the external sector had the effect of inhibiting economic growth and even bringing about a contraction in economic activity in real terms.

The influence of external factors on events in the countries of the region was not confined to the economic sphere. Some of the consequences of Central America's dependence on exports profoundly affected the shaping of its societies and the political order prevailing in them. It is common knowledge, for example, that the cultivation of one or two basic export products had a decisive influence on the division of labour, because of the intensive and seasonal nature of manpower requirements for the crops concerned. The availability of labour has thus played a vital part in the economic development of the region as well as in determining the dual and interdependent nature of export and subsistence agriculture, and these facts largely explain, in

their turn, the inequitable income distribution structures.

The organization of the Central American economies around one or two export products has also profoundly influenced the 'patterns of authority': the symbiotic relation between dominant economic groups (agricultural exporters and traders) and governments, the legacy of corruption from colonial times, and the historical use of repressive methods to ensure the availability of labour have helped to consolidate the authoritarian and non-participative systems, characteristic of the period since the war, which have taken different forms from one country to another, or within a single country at different times (the main exception being Costa Rica).

Furthermore, factors of external origin have also decisively influenced political interaction in the countries of the region. The virtual hegemony exercised by the United States since the signing of the Clayton-Bulwer treaty in 1850 has taken a new form in the period since the war because of the latent conflict existing between the two leading superpowers of the world. This is not the place to go into detail about the role of United States foreign policy in Central America—a topic which has been the subject of many studies in recent years—,³ but it is worth stressing

³While it must be admitted that reference to a to-and-fro movement between 'realism' and 'idealism' in the foreign policy of the United States represents an oversimplified description, it is nevertheless backed up by some searching analyses. See, for example, the description given by Dexter Perkins of cycles of 'quietism' and 'activism', in *The American Approach to Foreign Policy*, Cambridge, Mass., Harvard University Press, Revised edition, 1962, chapter VII, pp. 136-155. In other cases it is grounded on what Stanley Hoffmann describes as the 'dualism' of the United States style of foreign policy, one of whose manifestations is that of speaking two different languages, neither of which is entirely convincing, and which are difficult to reconcile, the first being the language of power and the second the language of community and harmony. Or, as Hoffmann himself puts it even more graphically, only a symbolic eagle can easily hold both arrows and an olive branch at the same time (see *Gulliver's Troubles or the Setting of American Foreign Policy*, New York, McGraw-Hill Book Company for the Council on Foreign Relations, 1968, pp. 177-178). Finally, the alternation between 'realism' and 'idealism' in foreign policy is also substantiated by Samuel P. Huntington's recent description of the United States' political system, one of whose essential features, in his view, is the gap between political ideals and political realities. Huntington recognizes that such a gap exists in all societies, but asserts

the considerable influence which the United States has acquired in the region. There is no question, of course, of ascribing to the United States an omnipotent role, or of insinuating that Central American events depend entirely on the designs of one or the other of the superpowers, since interaction between the national political actors has its own dynamics; but it may nevertheless be maintained that the United States has shown a capacity for fixing the limits of political interaction in the countries of the region by throwing its unbalancing weight on the side of the national actors whose position is closest to the postulates of its own foreign policy.

Of course the preferences of United States policy have not always formed a coherent set of objectives: some administrations have been mainly concerned with security—above all the 'containment of communism'—while others have been more interested in gradual orderly change towards more pluralistic and equitable societies. In this connection, United States governments have sometimes supported national actors who advocate orderly and peaceful changes, within the framework of a foreign policy *vis-à-vis* the Latin American countries which some authors have called 'idealistic'. This happened, for example, when the United States favoured the heterogeneous alliances which overthrew dictatorships in Guatemala, El Salvador and Honduras in the period following the war, or the governments which promoted changes under the 'Alliance for Progress' in the 1960s, as well as when possibly somewhat reluctant support was given to the similarly heterogeneous alliance which assumed power in Nicaragua in 1979. On other occasions, the United States Government has preferred to help national actors who, in its opinion, have the best

qualifications for ensuring a minimum of stability in the face of radical challenges to the *status quo*. The best example of this more 'realistic' policy might perhaps be the support given by the United States administration to the forces which overthrew the elected government in Guatemala in 1954.

At all events, when contradictions have arisen in United States foreign policy—as has happened fairly often—between the objective of promoting orderly change and that of avoiding threats to security, United States governments have invariably preferred to support those actors in each country whom it has considered most capable of defending their own interests. It is in this way that the governments in question have managed to fix the geopolitical limits referred to earlier.

3. *Superimposed development*

Of course the economies and societies of the Central American countries are very different from what they were thirty years ago, not only in quantitative respects—the gross domestic product rose from US\$ 1.95 billion to US\$ 7.52 billion (at 1970 prices) between 1950 and 1980, while over the same period the population increased from eight million to over 20 million inhabitants—but also because important qualitative changes have taken place. The societies are much more segmented and pluralistic; a noteworthy feature is the appearance of middle-income strata attributable partly to the progressive urbanization (only 16% of the population lived in urban areas in 1950, compared with 43% in 1980); the importance of secondary sector activities in the economies has increased (their relative participation climbed from 14.6% to 24.1% between the two dates mentioned) and in general the system of production has been modernized and diversified year by year. The different geographical regions within the countries are now much better integrated, thanks to the heavy investments made in the physical transport and communications infrastructure, and advances have even been made in the supply of education and especially health services. These changes are to be attributed essentially to the 'spill-over' caused by the style of development which has predominated in all the countries

that the United States is distinguished by its manner of approaching it: namely, through four responses differing from one another but all forming part of a 'cyclic pattern' that begins with 'moralism', which seeks to eliminate the gap; falls into 'cynicism', which tolerates it; moves on to 'complaisance' which contrives to ignore it; and ends with 'hypocrisy', which denies its existence. And after that the cycle begins all over again with 'moralism'. See *American Politics: The Promise of Disharmony* (Cambridge, Mass., The Belknap Press of Harvard University Press, 1981), pp. 3, 42, 64 and 68.

—albeit with specific characteristics varying from one to another— over the whole period under analysis. It may be considered that these changes have generally speaking been the only ones permitted by those who have had the possibility of keeping changes within certain limits, outstanding among these actors being those who obtained their economic power under the aegis of the agricultural export pattern which is so vital to the region's historical development style. Consequently, it may be said that the considerable changes which have taken place in the three decades since the war are characterized essentially by the way in which the new economic and social strata were gradually juxtaposed with those already existing, in the course of a process of change and modernization which did not in essence threaten the pre-existent economic structure.

The foregoing is simply another way of explaining an evolutionary process of peaceful change: as long as the pre-existent structures are not eliminated, then all the changes occurring in development patterns must, by definition, be of an additive or superimposed nature, although they need not necessarily be scorned on that account.

What it is desired to stress here, however, is that when these changes have seriously threatened the existing structures and vested interests, they have almost invariably found the way ahead barred, above all when the interests of the dominant groups have been identified—as has frequently (but not always) occurred—with those of the leading international actor in the Central American political arena, in the terms already referred to in previous paragraphs. Thus, peaceful and orderly changes or reforms have had to keep within very tight limits in most of the countries of the region. To put this another way, economic progress has caused an important social change, with many groups rising in the income scale and with the formation of middle classes, but the maintenance of the historical pattern of development has determined a slow and halting advance by the political institutions. The gap between economic change and strengthening of the political practices and institutions required by a more complex society is part of the background of instability in Central America.

This essential characteristic of 'superimposed development' has frequently obliged governments to seek substitutes for changes which perhaps might run the risk of exceeding the limits aforesaid. Thus, for example, recourse was had to external financing partly in order to postpone or take the place of increases in the tax base; State land was distributed in what were called 'land settlement' programmes, in preference to a restructuration of land tenure systems; and external saving was used as a substitute for (instead of a complement to) the inadequate machinery for tapping domestic saving.

By the same token, the tax burden came to be an interesting indicator of the constraints which 'superimposed development' had to face in Central America. Although important changes took place within the taxation system in all the countries—as a reflection of the changes which were coming about in the system of production—it is curious that tax revenue, as a percentage of the gross domestic product, remained constant in some countries or grew at only a dawdling pace in others (see table 1). Furthermore, this coefficient of taxation was extremely low compared with that of other countries of similar economic and social structure, a circumstance which should not be considered merely accidental: entrepreneurial and labour organizations in all the countries—albeit in different degrees—stubbornly resisted rises in levels of taxation, especially taxation on production and income. The financial constraints due to the scanty procurement of fiscal revenue severely limited the capacity of the public sector to play a more active role in development, while a growing proportion of the modest increases achieved in the coefficient of public expenditure (see table 2) was financed through borrowing, especially from external sources.

The public sector's limited participation in the gross domestic product, as measured through procurement of tax revenue and central government expenditure, also fitted in with the 'anti-dirigisme' position of the dominant groups in Central American societies. In the 1950s and 1960s, the public sector was gradually taking control of such public services as the generation and distribution of electricity, telephone communications, rail transport and port and harbour management, while State activity was also

Table 1
CENTRAL AMERICA: COEFFICIENT OF TAXATION, 1955 TO 1982

	1955	1960	1965	1970	1975	1980	1981	1982 ^a
<i>Central America</i>	9.5	9.3	9.4	9.7	11.3	11.4	10.7	10.8
Costa Rica	10.1	10.0	11.8	12.1	12.7	11.4	12.1	11.6
El Salvador	10.8	10.9	9.9	10.3	12.0	11.1	11.3	10.9
Guatemala	8.5	7.8	7.6	7.8	9.5	8.6	7.5	6.9
Honduras	7.3	10.1	9.7	11.2	12.1	14.0	13.2	12.5
Nicaragua	10.8	9.4	10.2	9.4	10.6	18.4	16.6	20.1

Source: ECLA, on the basis of official data.

^aProvisional figures.

Table 2
CENTRAL AMERICA: COEFFICIENT OF TOTAL CENTRAL GOVERNMENT EXPENDITURE,
1955 TO 1982

	1955	1960	1965	1970	1975	1980	1981	1982 ^a
<i>Central America</i>	10.6	11.2	11.3	11.6	15.8	19.3	19.5	20.3
Costa Rica	11.2	13.3	13.8	13.7	17.9	20.0	15.5	15.3
El Salvador	10.9	12.2	10.9	10.3	13.4	17.2	19.8	20.1
Guatemala	9.5	9.3	10.6	9.9	12.5	15.2	16.9	14.7
Honduras	10.0	12.2	10.8	14.7	21.0	24.9	23.7	23.6
Nicaragua	12.4	11.1	11.2	11.8	19.4	29.5	28.1	39.0

Source: ECLA, on the basis of official data.

^aProvisional figures.

strengthened with the establishment of public development banks and institutions for regulating commodity prices. In all countries, however, the public sector scrupulously avoided participating in activities of interest to private enterprise, the main exception to this rule being perhaps the Costa Rican financial intermediation system.

Another example of the persistence of pre-existent structures in the processes of change under discussion was the low level of backward or forward integration of traditional agricultural export activities, in the sense that the sectors depending on these have not tried to diversify systematically in order to invest in more complex activities. The appearance of new agricultural export lines (cotton, sugar and meat) meant no more than a repetition of the pattern of traditional basic commodities, with their scanty linkages with other productive activities. In other words, traditional producers diversified but lit-

tle, and the State shared only slightly in the surplus generated by them. This gives an idea of the way in which the traditional economic and social structures were perpetuated and of how the changes so often mentioned were simply juxtaposed with them without altering them in essence. That is to say, the changes occurred only within relatively narrow limits (although these varied somewhat from country to country). Thus, despite the considerable expansion and change which took place in the Central American economies and societies in the thirty years following the war, that change was, paradoxically, not sufficient to meet the growing expectations of large sectors of the population. Furthermore, the instinctive desire to preserve vulnerable social systems led in most of the countries to the maintenance of the existing economic patterns—which were able to take advantage of the boom in the international economy—based on political institutions that were of an exclusive nature, at

least as regards the distribution of power and of the fruits of economic development. Consequently, the social mobilization and spill-over effects which accompanied the postwar boom were not able to offset, in a comparable sense, the backwardness of some political structures.

4. *The exclusive nature of development*

Hence, despite their economic dynamism, the countries of the region were not capable during the thirty years after the war of significantly improving income distribution or of reducing the number of Central Americans living in a state of extreme poverty. According to household surveys carried out in recent years, the poorest 20%

of the population has less than 4% of the national income at its disposal, while at the other extreme the most affluent 20% obtains more than 55%. There are considerable differences from one country to another, the most dissimilar features corresponding once again to Costa Rica (see table 3). In countries where surveys were carried out at different times, the available evidence —albeit the methodologies used were not always comparable— indicates that the gap between the groups at the two extremes of the scale widened, even though the relative share of the intermediate strata may have tended to increase (see table 4). In the case of Guatemala and Costa Rica, the per capita real income of the poorest 20% of the population actually went down.

Table 3
CENTRAL AMERICA: STRUCTURE OF INCOME DISTRIBUTION AND PER CAPITA
INCOME LEVELS, BY COUNTRIES, TOWARDS 1980
(Dollars at 1970 prices)

Strata	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua	
	%	Average income	%	Average income	%	Average income	%	Average income	%	Average income
Poorest 20%	4.0	176.7	2.0	46.5	5.3	111.0	4.3	80.7	3.0	61.9
30% below the mean	17.0	500.8	10.0	155.1	14.5	202.7	12.7	140.0	13.0	178.2
30% above the mean	30.0	883.8	22.0	341.2	26.1	364.3	23.7	254.6	26.0	350.2
Richest 20%	49.0	1 165.2	66.0	1 535.5	54.1	1 133.6	59.3	796.3	58.0	1 199.8

Source: ECLA, on the basis of official data from the countries.

Table 4
CENTRAL AMERICA: EVOLUTION OF FAMILY INCOME DISTRIBUTION IN THE 1970s
(Dollars at 1970 prices)

Strata	Guatemala ^a			Costa Rica			Honduras		
	1970	1980	Growth rates (annual averages)	1971	1977	Growth rates (annual averages)	1968	1979	Growth rates (annual averages)
Poorest 20%	1 088	996	-0.9	572	528	-1.4	85	287	6.4
30% below the mean	2 014	1 962	-0.3	1 167	1 495	3.7	206	564	5.8
30% above the mean	3 702	3 865	0.4	2 269	2 639	2.3	522	1 055	4.6
Richest 20%	9 098	12 393	3.1	5 756	6 465	1.8	2 476	3 958	3.4
Richest 10%	12 081	12 970	4.0	7 874	8 737	0.9	3 649	11 395	6.2
Average income	3 752	4 426	1.7	2 297	2 639	1.3	731	1 338	4.1

Source: ECLA, on the basis of official data from the countries.

^a Urban sector.

In absolute figures, out of a total of over 20 million Central Americans in 1980, some 13.2 million (64%) were living in a state of poverty—in the sense that their income did not cover their basic needs—while over 8.5 million (41%) did not even have sufficient income to pay for the minimum shopping-basket of food considered necessary to meet their biológico-nutritional requirements (see table 5). The situation was much more serious in rural than in urban areas, and there were considerable differences from one country to another (in Costa Rica, less than 25% of the population lived below the threshold of poverty, whereas in Guatemala the corresponding proportion was over 70%). Moreover, although in all likelihood the percentage of Central Americans living in a state of poverty nowadays is less than it was 30 years ago, it is nevertheless true that in absolute terms, because of population expansion, there are now more poor people (and also more people who are not poor) than in the period immediately after the Second World War.

In short, the region's characteristic development style has been concentrative, or at any rate of an exclusive nature in the sense that it has favoured the different strata of the population in a flagrantly inequitable manner, accentuating the degree of income concentration in some countries. Likewise, although 30 years of rapid and sustained economic expansion have gone by, over half the population of Central America—and three-quarters of those living in rural areas—do not have sufficient income to cover their essential needs as regards food, housing, clothing and basic services.

It should be noted that the exclusive pattern of development is not confined to the economic and social sphere. If it were possible to speak of a

truly typical characteristic of political interaction in most of the Central American countries, then this characteristic would be the absence of broad popular participation, reflected in the virtual exclusion of the masses, and specially the rural masses, from political activity. Neither the industrialization nor the urbanization which have taken place since the end of the war have been able to bring about a decisive change in the still essentially agricultural nature of these societies. With a few exceptions, the masses working in rural areas continue to be passive observers instead of organized actors in the evolution of the political systems. This exclusive feature has had a decisive influence both on the characteristics and on the scope of the various modernization projects undertaken in the region.

Thus, with one exception, the lack of effective participation by the emerging social classes meant that they were not in a position to counterbalance the weight of the traditional power groups in the handling of public affairs, and this sometimes increased the tensions between the rapid social development and the slow institutional development in the political sphere.

To put this in another way, except in the case of Costa Rica, political interaction in Central America has generally been of an elitist nature and has not been able to include the region's most numerous population groups in the projected modernization of its societies. To do this would have meant perhaps eliminating, possibly by degrees, the factors of authoritarianism referred to above, and undertaking the consistently postponed reforms aimed at fulfilling the legitimate aspirations of the groups which have so far been virtually excluded from the benefits of development.

III

Recent events and the current economic crisis

1. *The break with historical trends*

In 1977-1978 the trends briefly described above reached a turning-point, at least as regards sustained economic growth. Since that two-year

period, a progressive slowdown has occurred, culminating in negative rates in all the countries (1982) (see figure 1). The duration, intensity and peculiar characteristics of this situation have no

Table 5
CENTRAL AMERICA: ESTIMATED INCIDENCE OF POVERTY TOWARDS 1980

	Whole of Central America			Costa Rica			El Salvador			Guatemala ^a			Honduras ^b			Nicaragua		
	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
<i>Thousands of persons</i>																		
<i>Total</i>	20 696	8 315	12 381	2 213	1 011	1 202	4 747	2 119	2 628	7 262	2 485	4 777	3 691	1 229	2 462	2 733	1 471	1 262
<i>In a state of poverty</i>	13 178	3 738	9 440	549	138	411	3 267	1 221	2 046	5 166	1 168	3 998	2 515	540	1 975	1 681	671	1 010
Extreme poverty	8 647	2 130	6 517	300	75	225	2 427	943	1 484	2 879	418	2 461	2 092	376	1 716	949	318	631
Basic needs not satisfied	4 531	1 608	2 923	249	63	186	840	278	562	2 287	750	1 537	423	164	259	732	353	379
<i>Not in a state of poverty</i>	7 518	4 577	2 941	1 664	873	791	1 530	898	632	2 096	1 317	779	1 176	689	487	1 052	800	252
<i>Percentage breakdown</i>																		
<i>Total</i>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>In a state of poverty</i>	63.7	45.0	76.2	24.8	13.6	34.2	68.1	57.6	76.4	71.1	47.0	83.7	68.2	43.9	80.2	61.5	45.6	80.0
Extreme poverty	41.8	25.6	52.6	13.6	7.4	18.7	50.6	44.5	55.4	39.6	18.8	51.5	56.7	30.6	69.7	34.7	21.6	50.0
Basic needs not satisfied	21.9	19.4	23.6	11.2	6.2	15.5	17.5	13.1	21.0	31.5	30.2	32.2	11.5	13.3	10.5	26.8	24.0	30.0
<i>Not in a state of poverty</i>	36.3	55.0	23.8	75.2	86.4	65.8	31.9	42.4	23.6	28.9	53.0	16.3	31.8	56.1	19.8	38.5	51.4	20.0

Source: ECLA, Central American Basic Needs Project, on the basis of data from the countries and CELADE, *Boletín Demográfico*, Vol. XIV, No. 28.

a Urban/rural population breakdown corresponds to figures from the 1979/1980 family income and expenditure survey.

b Urban/rural population breakdown corresponds to figures from the 1978/1979 family income and expenditure survey.

precedent in the period since the war. Suffice it to say that, after 30 years of expansion in the five countries' per capita income (with only sporadic interruptions), there has been a sharp and pervasive decrease during the last five years. In Costa Rica, Guatemala and Honduras the absolute level in late 1982 barely equalled that recorded in 1976. In El Salvador and Nicaragua the situation was even more dramatic, since real per capita income had slipped back to the levels of the first half of the 1960s.

In addition, the process of economic integration, which had earlier allowed the downward fluctuations in the international economy to be offset, changed direction and became a factor which magnified the crisis. Due to the depth of the crisis, together with political circumstances and the lack of a strategy of regional scope, the economic interdependence of the five countries has tended to become a mechanism that transmits recessionary economic forces.

The fact that the pronounced deterioration in the evolution of the economies has coincided with a period of increasing political upheaval may be functionally related to some of the characteristics of Central American societies mentioned before. Some of the many manifestations of those characteristics led to a questioning of the social order which involved violent challenges to the *status quo*, and these, in turn, gave rise to similarly violent responses which contributed to a rapid polarization of positions in some countries, especially Guatemala, El Salvador and Nicaragua. There are many complex and mutually-reinforcing interrelationships among the local political and economic factors and the way in which both intermix with external influences. These phenomena will be briefly examined below.

2. *The impact of exogenous phenomena*

It is not by chance that the economic crisis has affected all the countries, regardless of the degree of social peace or upheaval prevailing in them, the economic policy objectives pursued, or the differences in relations between the public and private sectors. All have been seriously affected by factors of external origin. This has been inevitable because the common denominator affecting them all has been the profound recession in the international economy which, as

already noted, to a great extent determines the overall behaviour of the Central American economies and even imposes a limit upon their ability to grow. Now, in addition to the world recession, the economic effects of the political crisis—discouragement of private investment, flight of capital, difficulties in attracting external financing—have combined and have reinforced one another to the point where they have produced an economic breakdown unlike any seen in Central America since the 1930s.

With respect to the effects of the disarray in the international economy, it may be recalled that, in addition to the industrialized countries' difficulties in 1978-1979—low growth rates, high rates of inflation, decreased savings, lags in the application of technological innovations—hydrocarbon prices went up again in 1979. Still greater importance could perhaps be attributed to the attempts to modify economic policy made by some industrialized countries which have stressed the fight against inflation—with some success—and have resorted, *inter alia*, to restrictive monetary measures that have been reflected in high interest rates. These policies have undoubtedly contributed to the slowdown of economic activity in the countries where they have been implemented, as well as in the world economy in general, with the resulting repercussions on the levels of international trade. This situation has weakened demand for the Central American countries' traditional exports. Given the persistent international inflation (although recently it has begun to decline), the weakness of demand produces a marked deterioration in the terms of trade. What is more, in the financial sphere, the Central American countries have been adversely affected by the high interest rates on their massive foreign debt and by their recent difficulties in gaining access to new external financing.

The figures in tables 6 and 7 speak for themselves. With the decline in the prices of virtually all the products exported by Central America and the continued upward pressure on the prices of its imports—especially hydrocarbons in 1979-1980—⁴ the region's terms of trade have deteriorated.

⁴For the region as a whole, the relative share of petroleum in total imports rose from 4.4% in 1970 to 10.7% in 1976, 18.7% in 1980 and 21.6% in 1981.

rated by almost 50% since 1977, while the purchasing power of its exports has fallen by 30%. In general terms, this means that if the 1977 purchasing power of exports had been kept up, the

total value of exports in 1982 would have been 40% greater than it was, whereby approximately 2.0% would have been added to the gross domestic product in the latter year.

Table 6
CENTRAL AMERICA: MAIN FOREIGN TRADE INDICATORS, 1976 TO 1981

	1976	1977	1978	1979	1980	1981
<i>Growth rates</i>						
<i>Exports of goods</i>						
Value	29.7	35.3	-1.3	14.9	2.3	-7.2
Volume	5.9	-0.9	2.6	13.6	-3.3	3.0
Unit value	22.4	36.5	-3.8	1.2	5.9	-4.5
<i>Imports of goods</i>						
Value	20.1	27.0	8.9	6.3	15.5	-4.6
Volume	14.5	19.8	1.9	-7.0	0.5	-11.4
Unit value	4.9	6.0	6.8	14.3	14.8	6.7
Terms of trade (goods)	16.7	28.8	-9.9	-11.5	-7.8	-11.5
<i>Indexes</i>						
Terms of trade	93.4	120.3	103.4	95.9	88.4	78.2
Purchasing power of exports of goods	132.6	169.3	156.5	157.3	140.1	120.4
Purchasing power of exports of goods and services	141.1	172.0	162.3	164.5	149.2	130.5

Source: ECLA, on the basis of official data.

Since 1978, the terms of trade have been negative each year in all of the countries. In addition, there has been a decline in the volume of the exports of some countries (including product lines, such as nickel in Guatemala, which have actually ceased to be exported because of lack of demand) as well as increasing difficulties in incorporating new export items because of market constraints and the protectionist measures which some industrialized countries have put into effect, and a considerable decrease in certain exports of services, such as tourism, due not only to the world economic recession but also to non-economic factors in Central America.

On the other hand, productive activity in the Central American countries required imports, in spite of the recession, especially in order to meet the demand created by the increased public spending which the governments promoted,

partly in order to counteract the sluggishness of private investment. As a result, the trade deficit of the five countries jumped from US\$ 432 mil-

Table 7
CENTRAL AMERICA: TERMS OF TRADE, 1976 TO 1981

	<i>Growth rates</i>					
	1976	1977	1978	1979	1980	1981
<i>Total</i>	16.7	28.8	-9.9	-11.5	-7.8	-11.5
Costa Rica	11.3	28.1	-6.8	-4.0	-6.1	-15.2
El Salvador	29.9	24.5	-15.7	-3.2	-11.5	-14.3
Guatemala	10.5	40.0	-11.4	-11.8	-6.4	-8.2
Honduras	8.2	15.4	-0.4	-12.3	-1.8	-17.6
Nicaragua	17.7	27.4	-11.3	-11.9	0.9	-9.7

Source: ECLA, on the basis of official data.

Table 8
CENTRAL AMERICA: BALANCE-OF-PAYMENTS TRADE ACCOUNT POSITION
AND ITS RATIO TO GDP, 1975 TO 1981

	1975	1976	1977	1978	1979	1980	1981
<i>Millions of dollars</i>							
<i>Total</i>	-570	-427	-432	-887	-653	-1 323	-1 411
Costa Rica	-166	-146	-164	-269	-425	-460	-107
El Salvador	-79	-12	29	-234	2	-51	-169
Guatemala	-77	-227	-99	-354	-291	-216	-548
Honduras	-101	-60	-74	-89	-99	-197	-126
Nicaragua	-147	18	-124	59	160	-399	-461
<i>As a percentage of GDP</i>							
<i>Total</i>	6.0	-3.5	-2.8	-5.4	-3.5	-6.4	-6.8
Costa Rica	-8.7	-6.1	-5.3	-7.6	-10.5	-10.1	-3.2
El Salvador	-4.4	-0.5	1.0	-7.6	0.1	-1.5	-5.0
Guatemala	-2.4	-5.2	-1.8	-5.8	-4.2	-2.8	-6.3
Honduras	-9.7	-4.7	-4.8	-4.9	-4.6	-7.7	-6.2
Nicaragua	-9.5	1.0	-5.5	2.9	7.7	-17.1	-18.2

Source: ECLA, on the basis of official data.

Table 9
CENTRAL AMERICA: BALANCE-OF-PAYMENTS CURRENT ACCOUNT POSITION
AND ITS RATIO TO GDP

	1975	1976	1977	1978	1979	1980	1981
<i>Millions of dollars</i>							
<i>Total</i>	-700	-455	-573	-1 088	-880	-1 690	-1 965
Costa Rica	-218	-203	-226	-364	-554	-654	-382
El Salvador	-95	-11	21	-249	-24	-117	-239
Guatemala	-65	-79	-37	-271	-180	-178	-560
Honduras	-125	-115	-139	-170	-212	-334	-285
Nicaragua	-197	-47	-192	-34	90	-407	-499
<i>As a percentage of GDP</i>							
<i>Total</i>	-7.4	-3.7	-3.8	-6.6	-4.7	-8.1	-9.5
Costa Rica	-11.4	-8.4	-7.4	-10.3	-13.7	-14.3	-12.0
El Salvador	-5.3	-0.5	0.7	-8.1	-0.7	-3.4	-7.1
Guatemala	-2.1	-1.8	-0.7	-4.5	-2.6	-2.3	-6.5
Honduras	-12.0	-8.9	-9.0	-9.3	-9.8	-13.1	-14.1
Nicaragua	-12.7	-2.5	-8.6	-1.7	4.3	-17.4	-19.7

Source: ECLA, on the basis of official data.

lion in 1977 (equal to 2% of GDP) to more than US\$ 1.4 billion in 1981 (6.8% of GDP) (see table 8). In addition, there was a spectacular increase in debt servicing, attributable not only to larger-scale borrowing but also, and in particular, to soaring interest rates. External factor payments rose, for example, from US\$ 268 million in 1977 to US\$ 700 million in 1981 for the region as a whole. This accounts for the fact that the current account deficit grew from US\$ 573 million to almost US\$ 2 billion during the same period (3.8% and 9.5% of the GDP, respectively) (see table 9).

During 1979-1980 Central America had considerable access to public and especially to private international financing. External support for Nicaragua's reconstruction programmes

contributed significantly to this phenomenon, and these resources partially took the place of domestic saving, which tended to be depleted rapidly by reason of public-sector deficits and the flight of private capital. In 1977 only 13.0% of total saving came from external sources, but that figure had increased to 46.4% in 1981 (see table 10). During the same period, the region's external public debt mounted from US\$ 2.4 billion to US\$ 7.7 billion, and factors limiting several countries' capacity for additional borrowing were thrown into relief. This last circumstance, combined with the constraints on the availability of new resources (the commercial banking system considers the region to be a high financial and political risk, while official sources have tended to diminish due to the austerity policies of

Table 10
CENTRAL AMERICA: EVOLUTION OF INVESTMENT AND SAVING, 1977 TO 1981
(Million of Central American pesos)

	1977		1978		1979		1980		1981 ^a	
	In absolute terms	%	In absolute terms	%	In absolute terms	%	In absolute terms	%	In absolute terms	%
<i>Central America</i>										
Gross domestic product at market prices	7 949	100.0	8 231	100.0	8 221	100.0	8 301	100.0	8 213	100.0
Gross domestic investment	1 728	21.7	1 717	20.9	1 492	18.1	1 539	18.5	1 431	17.4
Gross fixed investment	1 603	20.2	1 664	20.2	1 582	19.2	1 443	17.4	1 363	16.6
Public	536	6.8	506	6.1	501	6.1	587	7.1	665	8.1
Private	1 067	13.4	1 158	14.1	1 081	13.1	856	10.3	698	8.5
Changes in stocks	125	1.5	53	0.7	-90	-1.1	96	1.1	68	0.8
Global saving	1 728	21.7	1 717	20.9	1 492	18.1	1 539	18.5	1 431	17.4
External saving	196	2.5	324	4.0	232	2.8	580	7.0	559	6.8
Domestic saving	1 532	19.2	1 393	16.9	1 260	15.3	959	11.5	872	10.6
<i>Costa Rica</i>										
Gross domestic product at market prices	1 518	100.0	1 605	100.0	1 683	100.0	1 693	100.0	1 632	100.0
Gross domestic investment	424	27.9	453	28.2	506	30.0	450	26.7	306	18.8
Gross fixed investment	382	25.2	437	27.2	502	29.9	445	26.3	330	20.2
Public	106	7.0	121	7.5	150	8.9	154	9.1	122	7.4
Private	276	18.2	316	19.7	352	21.0	291	17.2	208	12.8
Changes in stocks	42	2.7	16	1.0	4	0.1	5	0.4	-24	-1.4
Global saving	424	27.9	453	28.2	506	30.0	450	26.7	306	18.8
External saving	27	1.8	71	4.4	128	7.6	124	7.4	5	0.3
Domestic saving	397	26.1	382	23.8	378	22.4	326	19.3	301	18.5

(concl.)

Table 10 (conclusion)

	1977		1978		1979		1980		1981 ^a	
	In absolute terms	%	In absolute terms	%	In absolute terms	%	In absolute terms	%	In absolute terms	%
<i>El Salvador</i>										
Gross domestic product at market prices	1 477	100.0	1 542	100.0	1 517	100.0	1 372	100.0	1 241	100.0
Gross domestic investment	362	24.5	376	24.4	336	22.1	198	14.5	162	13.1
Gross fixed investment	323	21.9	356	23.1	322	21.2	203	14.8	175	14.1
Public	112	7.6	111	7.2	113	7.4	97	7.1	83	6.7
Private	211	14.3	245	15.9	209	13.8	106	7.7	92	7.4
Changes in stocks	39	2.6	20	1.3	14	0.9	-5	-0.3	-12	-1.0
Global saving	362	24.5	376	24.4	336	22.1	198	14.5	162	13.1
External saving	73	4.9	153	9.9	63	4.2	24	1.8	27	2.2
Domestic saving	289	19.6	223	14.5	273	17.9	174	12.7	135	10.9
<i>Guatemala</i>										
Gross domestic product at market prices	2 891	100.0	3 036	100.0	3 171	100.0	3 290	100.0	3 323	100.0
Gross domestic investment	494	17.1	544	18.0	477	15.0	405	12.3	460	13.8
Gross fixed investment	463	16.0	497	16.4	462	14.6	419	12.7	434	13.1
Public	128	4.4	124	4.1	134	4.2	169	5.1	216	6.5
Private	335	11.6	373	12.3	328	10.4	250	7.6	218	6.6
Changes in stocks	31	1.1	47	1.6	15	0.4	-14	-0.4	26	0.7
Global saving	494	17.1	544	18.0	477	15.0	405	12.3	460	13.8
External saving	48	1.7	102	3.4	83	2.6	77	2.3	154	4.6
Domestic saving	446	15.4	442	14.6	394	12.4	328	10.0	306	9.2
<i>Honduras</i>										
Gross domestic product at market prices	938	100.0	1 004	100.0	1 072	100.0	1 089	100.0	1 084	100.0
Gross domestic investment	192	20.4	240	23.9	263	24.5	264	24.3	213	19.6
Gross fixed investment	190	20.3	237	23.6	250	23.3	251	23.0	213	19.6
Public	67	7.2	88	8.7	82	7.6	87	8.0	65	6.0
Private	123	13.1	149	14.9	168	15.7	164	15.0	148	13.6
Changes in stocks	2	0.1	3	0.3	13	1.2	13	1.3	-	-
Global saving	192	20.4	240	23.9	263	24.5	264	24.3	213	19.6
External saving	1	0.1	28	2.8	32	3.0	61	5.6	61	5.6
Domestic saving	191	20.3	212	21.1	231	21.5	203	18.7	152	14.0
<i>Nicaragua</i>										
Gross domestic product at market prices	1 125	100.0	1 044	100.0	778	100.0	857	100.0	933	100.0
Gross domestic investment	256	22.7	104	9.9	-90	-11.6	222	25.9	290	31.1
Gross fixed investment	245	21.8	137	13.1	46	5.9	125	14.6	211	22.6
Public	123	10.9	62	5.9	22	2.8	80	9.3	179	19.2
Private	122	10.9	75	7.2	24	3.1	45	5.3	32	3.4
Changes in stocks	11	0.9	-33	-3.2	-136	-17.5	97	11.3	79	8.5
Global saving	256	22.7	104	9.9	-90	-11.6	222	25.9	290	31.1
External saving	47	4.2	-30	-2.9	-74	-9.5	294	34.3	312	33.4
Domestic saving	209	18.5	134	12.8	-16	-2.1	-72	-8.4	-22	-2.3

Source: ECLA on the basis of official data.

^a Provisional figures.

the donor countries), has created serious difficulties since 1981 in obtaining net financing, and in 1982 external saving—far from offsetting the downward movement in national savings—contributed to the trend.

In 1980-1981 the level of economic activity in the region would have been even lower if it had not been for public and private net external financing (this rose from US\$ 864 million to US\$ 1 728 million between 1977 and 1980) and if some countries had not used the international monetary reserves which they still had available. Nevertheless, this latter source was quickly exhausted, and by the first quarter of 1982 all the countries, without exception, had negative net reserves.

There was also an intense and persistent flight of capital throughout the region (in some countries more than others), owing to economic and especially non-economic factors which aggravated each country's external position and thus decisively influenced the drop in economic activity.

Furthermore, exogenous factors not only had an impact on the evolution of the economies; they also influenced political events. As noted below, significant changes occurred towards the end of the 1970s in the political interaction of the region, especially in Nicaragua. Just as the long period of postwar economic expansion had reached a turning-point, the social and political structures too had had to undergo a major shift. These events gave rise to a heterogeneous alliance which challenged the ruling regime in Nicaragua. It was not by accident, however, that the changes in Nicaragua—like those in Guatemala, El Salvador and Honduras in the 1940s—occurred at a time when United States foreign policy was aimed at promoting orderly change based on principles which that country recognizes as valid. Thus, during a brief interlude the geopolitical boundaries referred to earlier were extended, and the challenge launched in one of the countries against the traditional development model became viable.

3. *The challenge to the 'superimposed development' model*

The programme adopted by the National Reconstruction Government of Nicaragua deviates from the well-known traditional norms. In a

different context, the events in El Salvador also diverge from the model of 'superimposed development' in so far as they have led to changes which, in one way or another, alter the pre-existing structures. It could even be said that, under the twofold onslaught of the economic crisis and the threat to the *status quo*, it is unlikely that the pre-existing structures will be able to survive in some countries without fundamental adjustments. This in no way predetermines the nature of the social organizations which might eventually replace the preceding ones, nor their ideological leanings; it only means that the post-war model which has been in effect for more than 30 years may have run its course.

Some of the economic phenomena which are at once the object and the subject of the crisis clearly illustrate what has just been said. One such phenomenon is capital accumulation. Investment has been shrinking considerably since 1978 both as a result and as a cause of the reduction in economic activity, the drop in domestic savings, the flight of capital and the reaction of the private sector to the political and social tensions by which the region is shaken. Table 10 shows that the domestic saving of the five countries fell from 19.9% to 9.3% of the gross domestic product in 1981—a serious situation for countries which are attempting to develop. Private investment also suffered a marked reverse: it diminished in all of the countries. The regional coefficient of private investment dwindled from 14% in 1978 to less than 9% in 1981, while in the countries disturbed by civil unrest, the coefficient of private capital formation has plummeted by 50% in the last five years. The public sector made an effort to counteract this decrease—thereby accentuating another long-standing imbalance in the Central American economies: the public finance deficit—but it was not enough; the coefficient of total investment declined in all the countries and tended to create bottlenecks in areas where public spending cannot serve as a substitute for private investment.

The deliberate efforts made by governments to counteract the reduction in economic activity, at a time when there was a downward trend in tax revenues, raised the proportion of the regional GDP represented by public spending from 17.7% in 1977 to 21.3% in 1981, while the coefficient of taxation fell from 12.9% to 11.6% during the

same period. As a result of the asymmetry in the patterns of expenditure and income, the aggregate deficit of the five governments increased from 460 million Central American pesos in 1977 (3% of GDP) to more than 1.6 billion pesos in 1981 (7.8% of GDP) (see table 11). In view of the lack of sufficient external financing to cover the deficits, domestic financing was used, but this expedient indirectly exacerbated the disequilibrium in the balance of payments—through the imported component of expenditure—and, in some cases, absorbed most of the expansion in domestic credit, thereby taking away resources from the national private sectors. Thus forces came into play which are tending to destroy, or already have destroyed, the traditional stability of prices in the countries of the region—yet another manifestation of the gradual functional impoverishment of the pre-existing structures.

4. Effects on intra-Central American co-operation

The external sector constraints—reflected in the shortage of foreign exchange—have worsened to such an extent that, as from 1981, the countries with deficits in intra-regional trade have

even had difficulties in covering their debit balances. At first, the central banks of the countries with surpluses extended bilateral credit lines, and later a regional mechanism was established to deal with the same problem multilaterally (the Central American Common Market Fund). However, when these expedients were exhausted⁵—and when sufficient backing from the international community was not forthcoming—the lack of foreign exchange began to limit intra-Central American trade.

The response of some countries to the constraints on their external sector was to adopt exchange measures (variations in parity, adoption of multiple rates or of controls on the movement of foreign exchange) which affected the terms of trade at the inter-Central American level and, in some cases, limited the volume of

⁵At the end of December 1982, the debts contracted by the countries in order to keep up their trade in previous months came to over US\$ 240 million: a debt so large that it exhausted the financing capacity both of the countries enjoying a trade surplus and of the multilateral mechanisms mentioned.

Table 11

CENTRAL AMERICA: CENTRAL GOVERNMENT DEFICITS, 1976 TO 1981^a

	1976	1977	1978	1979	1980	1981 ^a
<i>Millions of Central American pesos</i>						
<i>Total</i>	-579	-459	-789	-910	-1 470	-1 614
Costa Rica	-150	-136	-211	-324	-418	-184
El Salvador	-27	60	-52	-36	-198	-232
Guatemala	-225	-98	-138	-254	-446	-667
Honduras	-84	-102	-150	-140	-243	-248
Nicaragua	-93	-183	-238	-156	-165	-283
<i>As a percentage of GDP</i>						
<i>Total</i>	-4.7	-3.0	-4.8	-4.9	-7.1	-7.8
Costa Rica	-6.2	-4.4	-6.0	-8.0	-9.2	-5.8
El Salvador	-1.1	2.1	-1.7	-1.0	-5.7	-6.9
Guatemala	-5.2	-1.8	-2.3	-3.7	-5.7	-7.7
Honduras	-6.5	-6.6	-8.2	-6.5	-9.5	-12.3
Nicaragua	-5.0	-8.2	-11.7	-7.5	-7.1	-11.2

Source: ECLA, on the basis of official data.

^a Provisional figures.

commercial transactions. As a result of all these phenomena, intra-regional trade ceased to play its traditional role as a factor capable of offsetting cyclical lows in extra-regional trade and became one more victim of the crisis in the external sector. Thus, in 1982 it was estimated that the value of this trade would lessen by almost 20% (from 925 million Central American pesos in 1981 to 750 million pesos in 1982) and that its relative share of the region's total exports would shrink from 21.1% to 19.3%.

One of this situation's innumerable effects on the productive apparatus was that the degree of industrialization (which, as already noted, had increased consistently between 1950 and 1978) stagnated, decreasing from 17.1% in 1978 to 16.2% in 1982. In other words, industrialization, whose expansion had been more dynamic than that of the economy as a whole during the boom, has turned out to be less dynamic than the economy as a whole during the recession.

Despite the fact that the Central American governments have traditionally been, and continue to be, successful in keeping the sphere of economic co-operation separate from the sphere of political relations, the growing ideological heterogeneity now poses a latent threat that political differences will spill over into the sphere of economic co-operation precisely at the time when intra-regional co-operation is most needed in order to mitigate the effects of the external sector problems. In addition, the danger of internationalization of intra-regional conflicts could lead to a greater fragmentation of the Central American Isthmus and a repetition of painful historical episodes.

5. Summary

In short, the region is living through a critical

situation of unprecedented magnitude and depth. Economic activity has been diminishing, and this has been accompanied by growing external imbalances as well as by a sharp downturn in the levels of public sector saving and investment, together with an ever-narrowing radius of action for overcoming these disequilibria.

The high and rising levels of overt unemployment and underemployment suggest that the long-standing inequalities of the Central American economies will tend to worsen. The prolonged depression and the limited capacity of some of the countries for external borrowing have required the adoption of adjustment programmes —some in accordance with commitments to the International Monetary Fund— which involve the adoption of unpopular economic policies.

Moreover, the region is experiencing an intense political upheaval which is closely related to the above-mentioned economic phenomena, and all this may be the prelude to a breakdown of 'superimposed development' at a time when it is still not possible to glimpse the features of any alternative development model. What is more, given the unpromising economic prospects already described, not even the most optimistic view of things could counsel embarking on social transformations, yet without them the political stability of various countries in the region is in danger.

The intensity of the crisis has given rise to an atmosphere of demoralization which no one knows how to tackle and overcome. Unanswered questions, and even bewilderment, arise out of the realization that many problems surpass the constituted governments' capacity for action and are beginning to erode the very foundations of the process of Central American integration.

IV

Short-term prospects

*1. Alternative scenarios and the need to adapt
the Central American development style to
the new circumstances*

If the international economy had retained the characteristics which it had at the end of the Second World War, there can be little doubt that for economies with small markets such as those of Central America, the best and perhaps the only way of raising the levels of well-being of their population would have been to seek their dynamic incorporation into external trade flows, although not necessarily in the same forms as in the past.

In effect, because of the scale and characteristics of the markets of the Central American countries—even when considered as a whole—there can be no doubt that, regardless of whatever set of economic policies may be adopted in each country to stimulate its own economy and promote more equitable distribution of the fruits of development, external demand would have to continue playing a decisive role in determining levels of production, while external supply would perform an equally vital function in meeting the needs of the region. In other words, regardless of the development style which each country might select, it would be absurd to think of any possibility of Central American development in isolation from international trade flows.

It would be equally mistaken, however, to pin all the region's hopes on a development strategy oriented towards external markets whose evolution depends on many imponderable factors. At the very least, it must be taken into account that the industrialized economies—and the international economy in general—may have to cope with far-reaching structural changes whose consequences are impossible to predict. Is the world facing a prolonged period of recession or very slow expansion, with only limited possibilities of reactivating international trade and even with the danger that trade flows may continue to shrink? Or may it perhaps be possible, in contrast, to achieve rapid and sus-

tained reactivation of the main industrial powers, as some authors maintain, on the basis of highly advanced technological activities such as genetic engineering, microelectronics and robotization? If the industrialized economies were reactivated on these new technical bases, then what consequences could result from this for the Central American countries, whose capacity of adaptation to new circumstances is much smaller? In spite of the many studies on the topic published recently both in academic circles and by international and intergovernmental organizations, the complex set of factors intervening in the international crisis means that any forecast which is made can only be mere speculation.

It might, however, be assumed as a realistic hypothesis that the prolonged boom period of the industrialized economies in recent decades has reached its turning-point, and that the period of adjustment to a new situation whose features are still to be defined must necessarily be relatively long. Furthermore, during this period the developing countries in general and the Central American countries in particular will not be in conditions similar to those which prevailed in recent years. In particular, the possibility of procuring large amounts of external financing is likely to be constrained not only by the limitations associated with the countries' own capacity for borrowing or for attracting direct investment, but also by the contraction in the availability of public and private international resources as a result of the drop in the oil-exporting countries' surpluses, the austerity policies forming part of the adjustment process in the industrialized economies, the debt problems of the developing countries, and the difficulties experienced by the official multilateral bodies in replenishing their capital.

Even if the international economic crisis subsequently turned out to be a mere depressive cycle—albeit the most serious since the war—, followed by a recovery phase (which apparently has already begun in the United States), the posi-

tive effects of the latter on the Central American countries could only be very limited during the next two years in view of the considerable burden represented for almost all of them by their accumulated external debt, the depletion of their international monetary reserves, and the profound maladjustments—difficult to set right in the short term—which the recent recession must have caused in their production capacity and social structure.

Nor is it possible to think of an economic reactivation based on the recovery of domestic levels of saving and investment until such time as the reigning climate of instability can be dispelled. This, in its turn, calls for significant changes in the pattern of political interaction in most of the Central American countries. As long as the present degree of polarization of political tendencies, which have boiled over into situations of violence, is maintained, and until a way is found to improve the real and full participation of the broad masses in political life, it is difficult to see how it can be possible to restore social stability and thus enable attention to be turned to the attainment of objectives connected with material well-being. It has already been noted that the challenges to the traditional structures in some countries foreshadow a break with the past, but the characteristics of the social order which may emerge in each of the countries as a consequence of the complex phenomena described are still far from clear.

Be that as it may, unless the indispensable corrective measures are adopted soon, the present situation—which is already critical—will inevitably tend to deteriorate still further, with unforeseeable and even unmanageable consequences. In the economic sphere of each individual country, nothing can be foreseen at present but rising unemployment, a drop in real per capita income, declining levels of saving and investment, and persistent flights of capital. At the regional economic level, the important advances in intra-Central American co-operation achieved in 30 years of resolute effort could crumble in face of the dual problem of the shortage of foreign exchange (which has led to the adoption of national measures whose consequences include restrictions on reciprocal trade) and the tensions arising from the increasing internal division of some countries

or their likewise increasing ideological heterogeneity.

In the political sphere, the events of recent times have aroused the interest of the international community and led to an increased presence of external actors on the Central American stage. The entrance of new international forces on this stage and the depth of the economic crisis form a potentially explosive combination. The great risk attendant on the search for external allies on the part of the different actors confronting one another in the arena of Central American domestic policy lies in the probable internationalization of national conflicts along the split down the middle of the international political system.

In short, the domestic and external, economic and extra-economic circumstances which gave rise to the evolution of the Central American economies and societies in the thirty years after the end of the Second World War are now totally altered.

The Central American governments, both individually and collectively, must obviously do all they can to prevent such unfavourable tendencies from getting the upper hand. Otherwise, the future awaiting the Central American countries—subject to differences of degree between one and another—would be to pass from the relatively dynamic economic progress of the last 30 years to a downward path which would virtually lead back to the subsistence economy, while the growing political polarization foreshadows an increasing degree of authoritarianism and even the risk of violent conflicts extending beyond the purely national sphere. These future prospects could also include the ruin of the economic co-operation efforts carried out so enthusiastically in past decades.

2. Requirements of a development style fitted to the new circumstances

Recognition that the circumstances now faced are markedly different from those prevailing in the period following the war would constitute the first step for governments in moving towards a qualitatively different policy. In recent years, the international economy, instead of being a reliable source of support for the growth of the countries of the region, has become a source of

instability, and as has happened so many times in the history of Central America, it has set a limit—and a strict one—to the expansion of their economies. The recent changes in the political sphere, for their part, together with the traditional tendency to look abroad for explanations and solutions, constitute new risks, especially for intra-Central American co-operation.

The countries of the region would do ill to resign themselves to meekly suffering the consequences of an adverse external environment. Rather should they seek to expand their room for manoeuvre with the aim of gaining some degree of autonomy—no matter how modest it may be—without of course sacrificing the possibility of taking advantage of such dynamic impulses as the international economy may continue to generate. The ultimate objective pursued should be Central America's continuous advance towards greater control of its own destiny, both in the economic and in the political field.

In the first of these fields, it is not a matter of proposing utopian solutions such as, for example, trying to partly isolate the countries from the international flows, but neither is it a matter of passively accepting with folded arms, the cost of adaptation to the uncertain and adverse situation of the international economy. A realistic but more active approach would require that the countries, besides taking advantage of the opportunities offered by the international economy, should seek ways of reducing the vulnerability of their economies through the creation of alternative poles of development and modification of the traditional patterns of consumption and accumulation. In the second of these fields, what would be called for would be an explicit recognition by the Central American governments of the fact that international circumstances make it necessary to draw a distinction between economic aid proper and aid which may imply the interference of external actors seeking to internationalize national and intra-regional conflicts.

No claim is made here to spell out in detail the characteristic of a Central American development strategy in keeping with the new economic circumstances. Unfortunately, there are no set economic policy models for tackling the problem of the reduced opportunities in the international

economy or the uncertain situation prevailing in each of the economies of Central America and in the region as a whole. A first approximation, however, could be to identify the essential requirements of a more active approach to adjustment and to ways of offsetting the dominant recessive trends. These requirements would come to form part of a development style whose concrete expression, in view of the non-existence of theoretical solutions, would have to be gradually perfected through successive approximations as a function of each country's current and particular demands.

i) Definition of the structure of production desired.

The first requisite in a development style qualitatively different from that prevailing in the past would be to define with some precision the sectoral and subsectoral priorities of an economic policy aimed at selective reactivation of production. In this respect, the countries of the region could adopt a pragmatic approach consisting in taking maximum advantage of the possibilities which the international market might continue to offer, while at the same time giving a vigorous impulse to efficient import substitution. In effect, the region as a whole represents a sufficiently large resource base for appreciably expanding and diversifying the present production capacity without incurring disproportionate costs.

As regards production for external markets, for example, there is no reason why Central America should resign itself to limiting its exports to five or six basic products; thanks to its resource endowment and its geographical location there are, in spite of the uncertainty of international market prospects, obvious possibilities for expanding and diversifying sales of a whole range of products derived from the agricultural sector. These include fruit, vegetables, meat, dairy products, marine products and chemical inputs of vegetable origin, all capable of being subjected to increasing degrees of processing. The exploitation of forest resources, too, represents an important potential for some countries. In this respect, the specialized evolution of the manufacturing sector in the Scandinavian countries during the present century could provide some useful lessons for Central America, as could the progress made by some Asian econo-

mies in the export of highly labour-intensive manufactures.

In anticipation of the probable tendencies towards industrial redeployment at the international level, the skills of the region's labour force should be developed with a view to participation—among other possibilities—in the expansion which will characterize the different branches of the electronics industry, both as regards products and as regards the development of systems. All this would be a complement to—not a substitute for—the traditional export activities in which the Central American countries have had experience for decades and which would assuredly more than maintain their ability to compete on the world market.

In short, the present limitations of international demand should not lead Central American governments to give up their efforts to increase the generation of foreign exchange through exports; on the contrary, these efforts should be redoubled and new measures should be taken in the fields of fiscal and exchange rate practices and of organization of production and marketing so as to gain access to the markets of third countries.

As regards production for domestic consumption, top priority should be given to the supply of food—a branch in which Central America has achieved virtual self-sufficiency in the past and can do so again—and the promotion of relations between agriculture and industry which will make it possible to sustain and guarantee this self-sufficiency and also to generate exportable surpluses. In the second place, there is still ample potential in the region for industrial import substitution in reasonably efficient conditions, especially if industry takes advantage of the economies of scale implicit in the regional market. Among the branches which offer the best prospects are industrial development in connection with agriculture, construction and articles to meet essential needs.

In selecting the activities which ought to receive support from economic policy, a criterion of special importance could be based on their capacity to generate productive employment, in view of probable trends in labour supply and demand. In this connection, it would be possible to select labour-intensive techniques in the agri-

cultural sector and to support manufacturing activities of the same nature.

ii) *Realism and pragmatism.* One of the biggest problems that arise when formulating an economic policy is the uncertainty which largely stems from factors traditionally beyond the control of the governments of the region. Reference has already been made to the doubts which exist regarding the future evolution of the international economy, the changes to which the industrialized economies must face up, or the result of the relatively untried policies being implemented in some of the main industrialized countries. It is not yet known what influence these factors may have on the developing countries in general and those of Central America in particular, nor does anyone know what the final outcome of the grave political and social tensions present in some countries of the region will be.

All this means that the economic policy of the Central American countries must be designed and applied with flexibility and realism so that it can be progressively adapted and adjusted to changing, unpredictable and essentially unprecedented circumstances. Flexibility and effective responses would imply breaking with the past to some extent, because traditionally policies have tended to react passively or with considerable delay to the vicissitudes of the international economy. Today, in view of the risk that what will have to be faced is not so much a recessive cycle as a structural change in the world economy, it will be necessary to build a response capacity which will make it possible to take advantage of even the slightest opportunities and reduce as far as possible the constraints on the development of the countries of the region: questions which have particularly important implications for the conception and role corresponding to the State in guiding the future economic evolution of Central America.

In the same order of ideas, the current uncertainty and the want of solutions of proven worth mean that a new development style must adapt itself conceptually to a resolutely pragmatic approach. This is not the moment to be trying out particular economic doctrines, as recent experience in Latin America has so eloquently shown. One of the results of the disorder reigning in the international economy, for example, is that it is just as risky to throw the entire weight of

economic policy behind a strategy oriented towards dynamic insertion into world trade as it is to adopt a strategy which prevents a country from taking advantage of the potentialities of such trade. Economic policy must undoubtedly be planned with sufficient flexibility to enable it to be adapted without difficulty to all the changing conditions of external and internal markets.

In a situation of general lack of confidence on the part of some of the main economic agents, it seems completely inappropriate to leave adjustment programmes exclusively at the mercy of international economic trends and exposed to the play of market forces. Thus, for example, in view of the acute shortage of foreign exchange which characterizes all the economies of the region, it would be quite unsuitable to rely precisely on foreign exchange supply and demand for the fixing of exchange parities, since repressed needs and speculative pressures tend to value 'hard' currencies far above what they are really worth. It would be equally foolhardy to depend only on administrative controls and on exaggerated centralization of the application of economic policy when dealing with maladjustments of external or internal origin. It must be stressed once again that what is needed is a pragmatic approach making it possible to achieve certain objectives and mitigate the effects of the crisis on employment.

iii) *Austerity*. The international depression has been reflected in a number of restrictions attributable to the need to reduce imports and ultimately levels of economic activity. The resulting austerity, however, has by no means had an equal impact on the different strata of the population. The shortage of foreign exchange and the necessity of increasing the mobilization of domestic saving in view of the constraints on external financing, as well as that of satisfying the population's most basic needs, call for much more selective and careful use of export earnings and, in general, for an impartially strict pattern of expenditure. In short, the structures of expenditure and saving will also have to be adapted to the new economic circumstances, and this will be reflected in austerity consumption patterns in both the private and public sectors.

Austerity has a dual aim: to save foreign currency through the reduction of consumption of non-essential goods and services which either

are imported or have a high imported content, and to increase the coefficient of saving.

As regards the first of these objectives, the countries of the region must use the foreign exchange they manage to obtain from their exports with the greatest care and the strictest selectivity, and as already noted, this will necessitate considerable changes in traditional consumption patterns and in the characteristics of investment. With respect to consumption, governments will need to discourage the consumption of non-essential goods and services of external origin, and to take maximum advantage of national and regional potential for supplying demand. This may result in a life style different in quality from that of the past, above all in the middle and upper income strata of Central American societies. Of course there is no question of reducing still further the standards of living of the masses who are already living below the poverty line. On the contrary, as stated below, what is envisaged is a redistributive effort which, *inter alia*, will give greater support to the satisfaction of the population's basic needs.

Where investment is concerned, everything points to the advisability of reviewing the possibilities of using more labour-intensive technologies, not only because of the pressing need to create jobs, but also because of the necessity of reducing the imported component in new fixed capital.

The foregoing guidelines are of use for all the different types of governments, regardless of the economic policy objectives pursued or the means adopted to attain them. Some governments will place emphasis on exchange and taxation policy in order to achieve more effective use of their foreign exchange; others will adopt administrative systems designed to ration the allocation of such resources; while still others will resort to a combination of mechanisms designed to secure selective discouragement of imports. In the final analysis, what is needed is to bring about the rational and careful utilization of scarce foreign exchange in order to reduce as far as possible the adverse repercussions caused by the international economic situation.

Improving the selective utilization of the foreign exchange generated by exports means that the governments of the region must maximize the rationalization of public expenditure

and reorient it towards truly essential activities. This is particularly important because, on the one hand, the persistence of the international crisis and other factors of a domestic nature are heralding a recrudescence of social pressures on governments to fulfil their responsibilities for economic development and the well-being of the population, while on the other hand the markedly open nature of the Central American economies imposes strict limits on deficit financing of public expenditure because of its domestic effects and its repercussions on the balance of payments. In this connection, it will be necessary to suppress luxury or non-essential spending and above all to advance in political détente in the region, so that part of the resources now devoted to military purposes can be transferred to the promotion of development.

Furthermore, public expenditure itself could help to reduce the external imbalance if, in selecting investments, preference is given to projects which require a high proportion of national or regional inputs. At all events, the public sector will have to increase its procurement of revenue in keeping with its expenditure, in order to prevent financial deficits from contributing to inflationary demand for imported goods.

iv) *Efficiency.* Another basic requirement of a strategy appropriate to the new circumstances is that it should ensure that growth is based on increases in efficiency and productivity. In the present circumstances, improving efficiency is absolutely essential, from the macro- and micro-economic standpoints alike, in order to increase the multiplier effects of saving and investment, to undertake import substitution on reasonably competitive terms, or to maintain and expand exports to international markets. It is the duty of the State to improve the efficiency of the services which it provides and to encourage the productivity of enterprises by making reasonable use of fiscal and credit instruments.

A significant increase in efficiency and employment in the region can be achieved without resorting to imports of capital goods, simply by making full use of the existing installed capacity. As is common knowledge there is a considerable amount of idle capacity, above all in almost all branches of manufacturing. There is also an ample margin for appreciably stepping up the productivity of the area under crops in the case of

most of the region's agricultural products, even those where the countries have had the greatest success with their exports.

v) *Defence of the minimum requirements of the masses.* If it did not prove possible to bring about any significant reduction in extreme poverty even during the 30 years of dynamic expansion of the Central American economies, then it is inevitable that this situation should grow worse as the economic crisis persists, since there is a direct interrelation between levels of employment and degrees of poverty. In the last two years, overt unemployment and underemployment have increased, and unless some means of prevention is found, this tendency will be aggravated in the immediate future.

Unless the State takes clear measures in favour of the masses, the depressive effects of the crisis—and of the austerity policies accompanying it—will tend to have a disproportionately severe impact on these groups, which are the least well organized to defend themselves, and among other consequences this will widen the gulf between the governing and the governed.

The spread of absolute poverty is unacceptable from any point of view. It must be understood, however, that it is hard to implement a policy aimed at satisfying the basic needs of the masses even in periods of rapid economic expansion, and harder still in times of severe constraints, including those affecting the public finances. At all events, reducing poverty is an essential part of the needful development approach. Without it, all efforts to overcome the crisis would be meaningless, since the spread of social discontent could render social tensions unmanageable and make it impossible to retain savings; i.e., it would adversely affect the whole process of investment and development. Thus, in economic policy top priority should be given to food-and-agriculture systems, especially in respect of labour intensive activities. The provision of low-cost housing and of health and educational services would also call for priority attention.

It will be necessary to find some way of satisfying the basic needs of the population which involves a relatively modest imported component, in consonance with foreign exchange restrictions. At all events, and quite apart from considerations of equity, the political crisis in many countries of Central America has reached

a point at which it is absolutely indispensable to restore a minimum of peaceful understanding among the population. Otherwise, social instability will inevitably be reflected in economic instability, by paralysing, for example, the process of capital formation and leading to a kind of State-dominated expenditures which would be of little help in expanding productive activities.

3. *Implications for economic policy lines*

A development style different from that prevailing for the last three decades would probably have to be rather more inward-looking than the historical model, at least in the next few years. Thus, if the international economy does indeed turn out to suffer from a prolonged period of stagnation or if, even in a recovery phase, it does not give rise to sufficiently dynamic impulses for the Central American countries, it is logical that these countries should place the major emphasis on domestic demand in order to provide the impulses required. Stress must be laid on the critical importance of co-operative action at the regional level in support of an effort of this type, in order to overcome obstacles implicit in the narrowness of the markets which cannot be surmounted at the purely national level. At the same time, the gradual restructuring of consumption in a context of austerity and of a policy deliberately aimed at satisfying the basic needs of the population would reactivate domestic and regional demand, at least for certain types of goods and services.

There would be no question of having to face the dilemma (which would in any case be completely false) of stimulating domestic demand at the expense of an eventual reactivation of external demand. A flexible and selective economic policy would enable the countries to take better advantage of the incentives afforded by the national and regional markets, while it would not preclude their availing themselves of any opportunities that the international economy might offer.

It has already been noted that there is no set of models which can guarantee the efficacy of new policies embodying the requisites mentioned above. However, it will be essential—quite apart from the specific economic policy objectives which each country pursues and the mechanisms adopted in order to achieve them—

to encourage saving, promote growth, and defend the basic needs of the masses. In some countries, the fulfilment of such diverse requirements would call for the adoption of reforms which are long overdue, above all in the area of agrarian reform and taxation, and every growth strategy would have to pay marked attention to the satisfaction of the needs of the masses, on the basis of the creation of opportunities for productive employment.

Adherence to the historical growth model would mean that far from its being possible to put into practice minimum programmes for the expansion of job opportunities, all that could be expected in Central America would be a progressive increase in overt unemployment and underemployment. One of the essential aspects of the approach proposed here would therefore be to take maximum advantage of the resource most abundant in the region—its labour—in order to prevent the international recession from being reflected in still more critical levels of poverty.

Much has been written on this subject, and to recapitulate arguments would be out of place here. It is worth emphasizing, however, that the main criterion which should guide economic policy in the coming years should be that of its impact on employment, with the precise aim of contributing one of the basic ingredients for a kind of new social consensus to deal with a crisis which is difficult to resolve with traditional instruments.

The foregoing guidelines would find more concrete expression in the application of exchange, credit, taxation and public expenditure policies, and in the selection of techniques for implementing investment programmes. At the same time, it should be reiterated that placing emphasis on a more inward-looking approach than that historically adopted would not mean that there should be any slackening of efforts to take advantage of any opportunities that external demand might continue to afford. In this connection, the non-reciprocal preferences recently made available by various countries, including the United States of America and to a lesser extent Mexico, might offer a new potential well worth exploring.

Finally, little could be expected from the adoption of the economic policy criteria and guidelines sketched above unless a way out of the

social and political tensions which have arisen in some of the countries of the region is discovered. This is an extremely complex problem which does not admit of simple, much less of standardized solutions. The intention is not to enter into any discussion whatever on this subject in the present note, but certainly to emphasize that a minimum of stability and peaceful and harmonious coexistence—both within each individual country and in the subregion as a whole—is a prerequisite for any serious attempt at development and at the reactivation of private investment. A way must therefore be found to make economic, social and political demands give place to a participation model in which these demands are sifted and ordered in open processes of political negotiation so that they can subsequently be incorporated in concrete form in government programmes. It will also be necessary for the peoples of Central America to gain the fullest possible control over their own destinies, not only in economic affairs, as already stated, but also in the political sphere and in that of international relations.

4. The role of intra-regional co-operation

Beyond all doubt, intra-regional co-operation offers the best possibility of loosening the constraints imposed by the external sector on the Central American economies. Today, more than ever, it is needful to press on in greater depth with the programme which was begun in Central America nearly 30 years ago and which has left behind it such valuable fruits and experience. It is necessary to do this not only in order to take advantage of the more dynamic impulses which could be expected from domestic demand (understood on a regional basis), but also in order to face up jointly to certain specific features of the region's relations with the rest of the world. This aspect has been dealt with in ECLA documents on repeated occasions in the past, but it acquires fresh interest in the present circumstances.

The aim would be, through intra-Central American co-operation, to enlarge the scanty room for action available to each of the individual countries of the region, in order to mitigate the effects of the external-sector depression. In the short term, the only effective way of expanding local demand seems to be that con-

nected with co-operative efforts at the regional level. There is nothing new about such a procedure, since as long ago as the 1950s it was successfully put into practice in order to overcome the same obstacle, namely, the narrow limits imposed on growth by international demand. Now, however, it would be adopted in a different situation. If it proved possible to increase intra-regional trade to the maximum, the requisites for the new development style mentioned earlier would gradually be fulfilled as more rational use was made of installed capacity, the influence of adverse external-sector phenomena was reduced, efficiency was stepped up—both in import substitution and as regards improving the ability to compete on international markets—and even joint advantage was taken of any opportunities that the international market might continue to offer.

All this is hindered at present by the barriers standing in the way of intra-regional trade. Clearly, it would not be realistic to defend unrestricted free trade which did not take account of the greater or lesser importance of the goods being traded, but it would be desirable at all events to keep restrictions to a minimum and even to adopt mechanisms giving preference to reciprocal trade over similar trade flows with third countries. Only in this way would it be possible to make optimum use of the region's installed capacity, and even to promote some new activities based on regional demand. For this purpose, the countries would need to adopt new procedures for financing the intra-Central American trade debit balances, to do away with certain constraints at present resulting from the exchange controls adopted, and, in general terms, to give essentially the same treatment to products from any other Central American country as to those domestically produced.

Furthermore, as already noted, regional co-operation is the best way of improving the use made of the opportunities offered by international trade, both in order to increase exports—on the basis, for example, of common marketing systems—and in order to obtain additional external financing for projects and initiatives which are of interest to all. The strengthening of the Central American Bank for Economic Integration and of the machinery available under the Central American Monetary Council are ex-

amples of some measures which would give real force to this latter idea. Another initiative of great topical significance at present is that adopted by the Central American governments in 1981 whereby they propose to approach the international financial community jointly to seek an increase in the transfer of resources to the region. It should be remembered that lack of intra-regional co-ordination in such a vital area as external financing not only has a high opportunity cost—if the possibilities for joint mobilization of a flow of resources which could not be obtained through individual negotiations are lost—but also represents a risk for the survival of intra-Central American co-operation. It has been noted that various actors on the international scene seem to be interested in providing co-operation to the Central American countries on a selective basis, with the exclusion of one or more countries from their programmes. This type of external co-operation, far from uniting the Central American countries around a topic, would tend to separate them.

There would be no question, of course, of seeking to promote instant integration of the economies of the region, since the obstacles standing in the way of such an ambitious initiative are well-known. Rather would the aim be to make integration an effective instrument for helping each country, internally, to adapt itself to the circumstances so often mentioned here. Making intra-regional co-operation one of the pillars of this effort would simply mean demanding, in the first instance, the preservation of the degree of economic interdependence already reached, while subsequently promoting joint action to rectify or mitigate common problems.

In this connection, some ideas could be put forward for reactivating intra-regional economic co-operation in the short term on the basis of concrete action in six respects: a) maintenance of the degree of economic interdependence already reached on the basis of reduction of the barriers erected to intra-regional trade and the adoption of financial machinery to ensure the smooth operation of such trade; b) revision of the Central American common tariff—on the basis of the technical advisory studies already prepared—in support of the economic policy guidelines discussed earlier; c) regional co-ordination of short-term policies such as ex-

change policies, or those connected with the processes of cyclical adjustment d) joint activities *vis-à-vis* the international community, above all in order to increase the mobilization of external finance and improve the access of Central American products to the markets of third countries; e) implementation of joint projects of multinational interest, such as for example the interconnection of electricity systems and co-operation in the exploitation of marine resources; and f) strengthening of the Central American integration institutions so that they can help to carry out the policies in question.

5. *The renewed role of the State*

In periods of intensive change, when it is necessary to transform styles of growth, modify consumption patterns and defend minimum levels of well-being of the masses, it is essential in modern societies for the State to assume an active and leading role in the orientation of development, because otherwise society would become fragmented or it would be necessary to cover excessively high social costs.

Furthermore, the renewal of the role of the State is indispensable, regardless of differences of political inclination, because of the need to mobilize the population in a participative effort without which development and social stability would be seriously imperilled, quite independently of the scope and objectives of whatever economic policy each government may prefer and of the greater or lesser significance assigned to that policy. In other words, the need to adapt to new circumstances makes it essential to bring economic policy into line with different demands. Likewise, it is the responsibility of the State to help to resolve a series of conflicts which are bound to arise when a development style is in the making which is qualitatively different from that prevailing in the past.

It may seem an exaggeration to assert the need for the State to assume a more active role in the present critical situation. But analysis of the features of this situation shows that the public sector still has a certain amount of room for action, and this should be utilized not only in order to cushion the negative impact of the crisis, but also in order to orient its effects on constructive lines. Thus, for example, the shortage of foreign exchange makes it necessary for some-

one to lay down an order of priorities for the different importer sectors, and also to require that export earnings really be devoted to essential imports. It seems natural that this role should be assigned to the Central Banks and the government departments concerned with foreign trade. At all events, the need to rationalize the use of foreign exchange calls for greater intervention by the State than that which would be needed in situations of normality as regards external relations.

Furthermore, this shortage gives rise to conflicts of interest and consequent pressures on the part of the various importer and exporter groups. The disputes which invariably take place in these situations can only be settled through the arbitration of a higher authority. In this respect, regardless of the combination of exchange, credit or tax formulas resorted to in order to face the crisis, the shortage of resources does in fact exacerbate the struggle between the various interest groups, thus opening up—due to the fragmentation of demands—a larger room for manoeuvre which the public sector can use to advantage.

Another qualitative change in the role play-

ed by the public sector derives from its lesser degree of dependence on international trade as a direct source of fiscal revenue. The decisive role historically played by the exporter groups has been reflected in the considerable weight of foreign trade taxes in the public sector income, but this situation will tend to change as the external depression limits the possibilities of exporting and, accordingly, of importing too. As a result, there will be financial problems until new domestic tax sources are found, but at the same time the vulnerability of the State *vis-à-vis* certain pressure groups will be reduced.

As already noted, nothing said in this study prejudices the degree of intentionality of public action in each country; the role of the 'Monitor State' is considered to be perfectly compatible with a strong and vigorous private sector. On the other hand, what it is desired to emphasize is the unavoidable need for the State to assume a more decisive role in order to orient the development style in the light of certain objectives, connected with the vital common imperative of overcoming the adverse factors currently predominating in the economies of the region and threatening their social and political stability.

Past, present and future of the international economic crisis

*Osvaldo Sunkel**

In this article the author works out an interpretation of the present crisis which attempts to understand its deep-seated causes and therefore make it possible to influence its course successfully.

In the first place, he outlines the historical framework in which the existing situation can be viewed, from the establishment of the outward-looking development pattern in the last century, to the process of increasing transnationalization in recent decades which is culminating in the present crisis. He then goes on to discuss the nature of the crisis today, both in the centres and in the periphery, with the aim of determining whether it is a transient and superficial phenomenon, or, on the contrary, is symptomatic of a profound and prolonged upheaval. Some forecasts of the future of the world economy are next presented, so as to evaluate the probable conditions with which the peripheral countries will have to cope in the forthcoming decades.

Lastly, in his conclusions, he suggests the course of action that should be followed in face of the crisis. Its principal aspects are the reactivation and opening-up of the central economies; an equitable internal and international distribution of the cost of the external debt, with the establishment of debt service on new bases; orientation of development policies towards export promotion and satisfaction of the needs of the most deprived sectors; and emphasis on regional co-operation.

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I

The current dilemma

The development policies of Latin America since the Second World War have been inspired by two main theoretical sources: post-Keynesian developmentism and neoliberal monetarism. The first is associated with R. Prebisch and ECLA and the second with M. Friedman and the Chicago School. Obviously, reality is always more complex and finely-shaded than analytical distinctions, but the latter fulfil a useful function of conceptual clarification. The purpose here is to single out two theoretical conceptions that inspire different policies, and two historical periods, in which first one prevails and then the other, until they culminate in the current crisis, when once again they dispute the leading role.

Post-Keynesian developmentism places emphasis, in internal affairs, on the development of the material productive forces of industry, of agriculture, of the basic social capital and human resources infrastructure; externally, on regional integration and public international co-operation. The State and planning play a major role in the promotion of social and economic development and in international relations. This approach prevailed during the 1950s and 1960s with varying degrees of intensity and coherence in different countries.

Neoliberal monetarism, with its emphasis on the liberalization of the money, goods and services and labour markets, on external openness in respect of trade and finance, and on the development of internal financial systems, and its promotion of private and market economic agents in preference to the State and to planning, began to establish itself in the 1960s and prevailed in many countries in the 1970s.

This transition—in some cases moderate, pragmatic, complex and intelligent, but not so much so in others—reached extremes of ideological radicalization in a number of instances, particularly in the countries of the Southern Cone. Although these national differences were determined, to a great extent, by the historical experience and the economic, social and political structures of each country, the general trend towards a transition from development strategies that were more protectionist and State-controlled to others more open to the exterior and privatizing

was undoubtedly connected with the changing international scenario of the post-war decades. The great world depression of 1929-1932 and the Second World War initially encouraged developmentist strategies. In contrast, the process of expansion of the international private financial system begun in the mid-1960s accentuated the influence of monetarism, culminating in the present international economic crisis. This crisis now confronts every country, more or less

urgently, as the case may be, with a crucial economic policy dilemma: either submission to an extremely severe recessive adjustment of a monetarist character, such as transnational financial capitalism is trying to impose, or recovery and maintenance of a sufficient degree of freedom to implement reactivating policies in the framework of a strategy based on development of the national and regional productive and social forces.

II

The privatization of the international financial system

In my opinion, there is a close relation between the degree of integration or desintegration of the international economy—and in particular of the international financial markets—and the degree of protectionism or openness of the national economies, their resource allocation criteria, their options between consumption and investment, the form taken by their power structures and the degree of State intervention, all of which is reflected in conceptual and economic policy reformulations.

During the period of outward-looking development, which extended from the nineteenth century up to 1930, there was a close economic, commercial and financial integration at the international level which resulted in the predominance of the pound sterling—a currency which enjoyed strong economic as well as military backing—and found expression in wide and increasing international flows of trade, credit, investment and even migration. This world set-up of the British Empire and its zones of influence, such as Latin America, was accompanied by national situations of little protection and very open economies, both at the centre and at the periphery. This led to a process of allocating resources in relation to comparative advantages. As the comparative advantages acquired by the centre were concentrated mainly in manufacturing industry, its export trade became specialized in manufactures, and as the countries of the periphery had not gained similar advantages, they specialized in sectors

characterized by intensive use of natural resources and labour.

To this structural situation corresponded a specific organization of political power: a dominant coalition was formed by the exporter sectors (manufacturers at the centre, raw materials producers at the periphery), the importer sectors (raw materials in the centre, manufactured goods at the periphery), the big businessmen and, above all, the financial sectors. Their interest in maximizing international trade and finance resulted in relatively little State intervention in the economy, except for the purposes of creating the infrastructure services required by the outward-looking growth model, or imposing the rules of the game. *Laissez-faire* policies predominated, and their rationalization in ideological and theoretical terms—i.e., the classic liberal theory of market allocation of resources both at the national and at the international level (static theory of comparative advantages).

This stage of capitalistic development ended in the great depression of 1930, followed by a long interregnum preceding the United States hegemony that arose after the Second World War. During this period some profound readjustments took place: international markets disintegrated; the international private financial market disappeared, as did direct private investment; and only a few modest trade flows remained. The generalized crisis in trade, finance and international private investment was mani-

fested in all countries in serious imbalances on their international transactions and in a severe depression of economic activity. Most countries withdrew from the international system and isolated their economies by applying protectionist measures in the field of trade and exchange controls in that of finance.

It is important to stress that this protectionism occurred simultaneously in the centre and at the periphery. Import substitution was not a perverse invention of the peripheral countries or of Prebisch and ECLA, as some economists of little historical culture seem to believe: it was also, and at the same time, the recourse to which the central countries turned in order to meet the crisis. Each country protected and encouraged what it had formerly imported: the central countries essentially protected their agriculture, and thence arose a whole institutional apparatus of support and promotion of agriculture which is still—50 years later—a very serious obstacle to international trade and the agricultural production of the Third World.

In our countries, for their part, the 1930 crisis led to generalized protection of manufacturing, and marked the beginning of a phase of deliberate development of import-substituting industry. A gap was thus created between the internal and the international price systems, reflected in a change in the relative prices of agricultural commodities and industrial goods. Consequently, an adjustment took place in the allocation of resources: at the periphery towards the development of manufacturing and at the centre towards agricultural development. This process did not happen automatically, but through decisive State action and a rearticulation, in both types of countries, of the hegemonic coalition of power within the ruling classes. This coalition dominated by exporter, importer, business and financial interests, was ousted—not without radical political conflicts—by a coalition based mainly on entrepreneurial sectors, middle-class groups and the organized working classes, a change that was reflected in the importance attached to production, employment and income distribution in overcoming the crisis.

These were the decades from the 1930s to the 1960s, which were characterized in many

Latin American countries by governments that subscribed to active State intervention in support of industrial development; investment in infrastructure; some structural reforms; income redistribution through an increase in social expenditure; and public policies favouring the middle income and low income groups.¹ In the international field regional integration and co-operation were actively fostered, as was public technical and economic co-operation between developed and underdeveloped countries, though this did not preclude denunciation of the iniquities and injustices of the system of international economic relations.

With the appropriate reservations, the post-war picture of the industrialized countries—the United States, the European countries, and Japan—is not so very different. There too the State assumed a leading role in respect of the reactivation and reconstruction of the economy; the technical development and modernization of the productive forces; the correction of unfair income distribution by application of the concept of a Welfare State; and the adoption of systematic full-employment policies. In Europe, moreover, very marked emphasis was placed on regional integration and co-operation.

The institutional modernization of the State and the practice of planning figured in both developed and developing areas as guiding instruments that modified and complemented the market. The economic theories in vogue revolved around economic growth in the centre and development policies in Latin America, where the subject of planning acquired outstanding importance. Theoretical discussion was focused on criticism of traditional neoclassical and Keynesian (static) economic theory, in relation to the need for a growth theory (dynamic and post-Keynesian), structural change and development.

While this was occurring on the internal stage, the international economic system was also trying to recover from the 1930 *débâcle*. During the next decade, international trade toned up, but private investment, both direct and financial, had completely disappeared. Instead, some pub-

¹ Here I am referring to the propositions, intentions and measures incorporated in development policy, not to what was actually achieved.

lic institutions were set up, such as Eximbank in the United States to facilitate export expansion. Faced with the disappearance of the international private financial system after the end of the Second World War, an international financial system of a public character was created under the Bretton Woods agreements, including, in particular the World Bank and the International Monetary Fund (IMF). To these organizations were added later on the regional development banks such as the Inter-American Development Bank (IDB), the public bilateral and multilateral financial aid institutions and the State agencies responsible for extending export credits. By the mid-1960s the establishment of a public international financial system had been completed.

During the 1950s and 1960s direct international private investment reappeared, now embodied in the transnational corporations, which at first were solely North American, and later European and Japanese as well. They took advantage of the national markets created in the peripheral countries under the aegis of protectionist measures and industrial development policies, jumping commercial barriers by establishing local subsidiaries.

This was the start of a process of transnationalization of the structure of production, which subsequently extended to patterns of consumption, life styles and culture.² The close of the 1960s saw the first steps in the re-creation of an international private financial market, whose expansion during the following decade attained extraordinary dimensions. A new period of international economic integration—this time of a transnational character—now dawned, beginning with the recovery of trade and the transfer of patterns of consumption and life styles, continuing with the expansion of transnational private investment and patterns of technology and production, and culminating, especially after 1973, in the creation of a transnational financial market of a private character, controlled by a few big transnationalized banks, which gradually ac-

quired great freedom of manoeuvre as they outgrew supervision by the national financial authorities.

It is of interest here to underline five central characteristics of this process. In the first place, the re-creation and accelerated expansion of this new international capital market, which had disappeared 40 years before and which grew from US\$ 12 billion in 1964 to almost US\$ 700 billion in 1982 (see table 1). Secondly, the privatization of external financing: in 1961-1965, 60% of the inflow of external financial resources into Latin America was of public origin and 40% came from private sources; in 1978 public financing had shrunk almost to nothing—7%—and the share of private financing had risen to 93% (see table 2). Thirdly, the predominance of the banking system in this capital market: in 1961-1965, out of the 40% inflows of foreign private capital, 25% was direct private investment and only 2% bank financing, proportions which in 1978 were radically different; bank financing increased to 57% and

Table 1
NET SIZE OF THE EURO-CURRENCY MARKET,
1964-1982

End of year ^a	Net size of narrowly defined Euro-currency market (billions of dollars)
1964	12
1965	13
1966	16
1967	21
1968	20
1969	44
1970	57
1971	71
1972	92
1973	132
1974	177
1975	205
1976	247
1977	300
1978	375
1979	475
1980	575
1981	661
1982	686

Source: Stephany Griffith-Jones, *International Finance and Latin America: Past and Future*, ALIDE (forthcoming), table 7.

^a Refers to December for the years 1964 to 1981, and to September for 1982.

²See O. Sunkel and E. Fuenzalida, "Transnationalization and its National Consequences", in José J. Villamil (ed.), *Transnational Capitalism and National Development*, Hassocks (Sussex), The Harvester Press (in association with the Institute of Development Studies, University of Sussex), 1979.

Table 2
LATIN AMERICA:^a PERCENTAGE STRUCTURE OF NET INFLOW OF
EXTERNAL RESOURCES, 1961-1968

Percentage structure	Annual averages				
	1960-65	1966-70	1971-75	1976	1977
I. Net public inflow	60.2	40.1	25.2	19.6	12.0
A. Multilateral	19.5	15.7	13.4	14.4	7.4
Development	16.6	17.1	11.6	6.6	8.4
Compensatory	2.9	-1.4	1.8	7.8	-1.0
B. Bilateral	40.7	24.4	11.8	5.2	4.6
From United States	36.9	23.6	6.8	2.6	1.7
Other countries ^b	3.8	0.8	5.0	2.6	2.9
II. Net private inflow ^c	39.8	59.9	74.8	80.4	88.0
A. Banks ^d	2.1	9.3	43.8	61.0	48.3
B. Suppliers	7.7	13.8	2.3	3.7	5.8
C. Bonds	5.0	2.5	2.5	3.3	14.8
D. Direct investment	25.2	33.3	26.2	12.4	20.1
III. Percentage total	100.0	100.0	100.0	100.0	100.0
Total actual level (thousands of dollars)	1 575.8	2 641.3	7 561.9	15 301.5	15 637.0

Source: Stephany Griffith-Jones, *International Finance...*, *op. cit.*, table 4.

^aIncludes the member countries of the Inter-American Development Bank and its subregional agencies.

^bIncludes the socialist countries and the OECD members except the United States.

^cIncludes credits for nationalization.

^dIncludes financial institutions other than banks.

direct private investment dropped to 16%. These two phenomena also signified that the large-scale expansion of credit was channelled essentially towards the petroleum-exporting and semi-industrialized countries, bypassing the poorer countries which do not represent an attractive market for the private banks.

Fourthly, the oligopolization and subsequent monopolization of the international capital market. The copious inflow of external financing into many countries and enterprises was organized by some 30 big transnational banks which obtained a considerable proportion of the financing from hundreds of small and medium-sized banks through the system of syndicated loans. For the purpose of managing the crisis and obtaining monopoly rents from the renegotiation of debts, the oligopoly has turned into a monopoly formed by about seven or eight large North American banks which join forces for solidary self-protection in *ad hoc* committees.³

Fifthly, in consequence of all the foregoing circumstances, the total lack of public control and responsibility with respect to this process of expansion of the international financial oligopoly, features which are at the very heart of the present financial crisis, and are shared equally by the transnational banks, the governments of the industrial countries that are hosts to the banks in question, and the governments of the over-indebted countries.

Here the governments of the OPEC countries and of the Third World in general wasted a unique opportunity to convert the obsolete Bretton Woods institutions into an international public system genuinely representative of the interests of the community of nations, accountable to their governments, and directed towards promotion of the development of the Third World and preservation of the dynamism and stability of the international economy.

Just as Monsieur Jourdain spoke prose un-

³See R. Devlin, "Commercial bank financed from the North and economic development of the South: congruence and conflict", and "Renegotiation of Latin America's debt:

an analysis of the monopoly power of private banks", in *CEPAL Review*, No. 9, December 1979, and No. 20, August 1983, respectively.

awares, throughout the 1970s we have lived through the equivalent of a Marshall Plan, without referring to it or even noticing it. The recommendations of the Brandt Commission were in fact applied, but *avant la lettre*, in accordance with market criteria, and by the transnational banks, instead of by a public international mechanism, sober, responsible and under the control of the national States. The result was, on the one hand, a fundamental Keynesian contribution to the maintenance of some degree of expansion of the international economy during the 1970s, which enabled it partly to overcome its trend towards stagnation as from the end of the 1960s; and, on the other hand, a colossal waste of productive resources during that period, since they were allocated, in part at least, to financing Pharaonic and over-sized investment projects which were left incomplete or only partially in use; to a great increase in luxury consumption; to the production and purchase of armaments; and even to flight of capital and corruption.

This chaotic situation contrasts with that of the public international financial system and, in general, with the whole of the international system of bilateral and multilateral co-operation and aid for development which prevailed in the 1950s and 1960s. That mechanism, despite all its deficiencies, implied certain social criteria as regards anti-cyclical stabilization and resource allocation policies, which were superseded by private, bank and market criteria, and, in the last analysis, as far as can be seen, by sheer lack of judgment. Under the first system referred to the allocation of international public financial resources was subject to State mediation both in the donor and in the recipient country. Public resource allocation criteria were established which reflected long-term socio-political options, such as promoting industrial development, providing basic social capital, introducing structural reforms and modernizing agriculture, saving foreign exchange and creating employment. These were criteria which the parliaments of the developed countries imposed upon their own States and their foreign aid and financing institutions, and on the basis of which the State of the underdeveloped country negotiated, in so far as it too reflected long-term national interests.

In their stead, market criteria correspond to the maximization of profits in the minimum

possible length of time, to inequitable income distribution, to the consumer preferences of the high income groups and to the market strategies of the most powerful and dynamic national and transnational private groups. Here there is a difference of transcendental importance: governments and entrepreneurs have had great freedom to obtain and allocate vast quantities of external resources, but this increased freedom has not necessarily been to the advantage of the countries receiving that plentiful inflow of private capital. Apart from the much heavier financial cost it represents, which has become a terrible burden because of the high interest rates, the problem lies firstly in the fact that when the governments concerned are not firmly committed to a development policy, the readily available supply of short-term external private financing takes the place of long-term external and internal saving and is deflected to consumption, instead of helping to broaden and diversify production capacity; and secondly in that the market by itself is not the most appropriate instrument for channelling resources towards the development of a diversified production system, accompanied by social justice, and sustainable over the long term.

In cases where the State continued to control the allocation of resources for development, in face of the abundance of external resources it often lost all sense of prudence and moderation and sank into a kind of financial fools' paradise, forgetting that real institutional and human capacity for rational utilization of financial resources is limited, and that disproportionate short-term external borrowing is never a fit base for development strategy. In the petroleum-exporting countries, another great mirage took the form of confusing structural adjustments in petroleum prices with a sustained long-term trend on which to base the wildest investment projects and a reckless boosting of consumption. It would seem that all these issues, fully discussed in the literature of development, were likewise forgotten in the great financial conjuring act of the 1970s.

Transnational financial integration, the restoration of easy and ample access to the international private financial system and the possibility of large-scale borrowing exerted strong pressure in favour of the adoption of policies of trade and

financial openness and liberalization. When the political conflict between different coalitions is defined in these terms, the result is over-expansion of imports of consumer goods and of the commercial and financial services sectors, and a reallocation of resources to the sectors with natural comparative advantages—including, in some countries, activities with advantages acquired during the import substitution process. All this was accompanied by an attempt to consolidate the new hegemonic coalition: supported by international private financing, and under the leadership of the financial sector, exporters, importers and businessmen entered upon the scene with renewed vigour, seeking to take the place of the coalition formed by the industrial sectors, middle-income groups and working classes. There was a definite effort to reduce State intervention in order to leave the market—i.e., the main economic groups—to operate as freely as possible, an updating of *laissez-faire* policies and the whole market ideology of free exchange, static comparative advantages, private enterprise and individualism. All this of course with the energetic backing of the new transnational centres of financial power.

In a commentary written on the eve of the crisis the following questions were propounded in this connection: how long will the pendulum be stayed at the extreme of transnational financial integration on which the strategy of external openness is so decidedly based? How far can the already taut cord of private external borrowing be stretched, especially in view of trends towards stagnation and protectionism in the centres and their effects on peripheral exports? What limits are there to a strategy of economic growth with external openness essentially grounded on expansion of consumption of imports, of the financial and services sectors and of primary export activities? Has 1930 been forgotten? How can oil-importing countries keep up and even accentuate a development style which encourages imports in general, including imports of fuels, with real prices going up over the long term and with uncertain supplies? And, conversely, in the case of the petroleum-exporting countries, what would happen to such a strategy if fuel prices stopped rising? What will be the effects of this strategy on the diversification of the production system, on capital accumulation, on employment and on income distribution.⁴

III

Reactivation without a future

A recession in the central economies, less acute but more protracted than that of 1974-1975, has sufficed to answer the questions posed. In Chile and Mexico, in Argentina and Brazil, in Uruguay and Ecuador, the shortcomings of both monetarism and developmentism have been exposed. Even in Colombia, a country which throughout the last decade pursued prudent policies, prompted by a healthy pragmatism, without succumbing to the allurements of the flag-waggers on either side, there is now outward and visible evidence of the vulnerability and the structural and socio-political weaknesses which are characteristic of an underdeveloped and dependent economy, and which not even an admittedly reasonable mix of developmentist and monetarist policies has been able to overcome. In a burst of groundless optimism, many had believed these

weaknesses to have been conquered or non-existent, on seeing that the Latin American economy continued to grow throughout the 1970s despite the relative stagnation of the economy of the centres and the petroleum crisis.

The structural problems of Latin America's development are well known. Although the growth rates of production, especially in the industrial sector, have been exceptionally high, urban and rural poverty is still present on a mas-

⁴See O. Sunkel, "Comentarios sobre E. Bacha y C. Díaz-Alejandro: Mercados financieros: una visión desde la semiperiferia", in R. Ffrench-Davis (compiler), *Las relaciones financieras externas, su efecto en la economía latinoamericana*, Mexico, Fondo de Cultura Económica, Serie Lecturas No. 47, 1983, p. 69. The foregoing pages are a revised version of this article.

sive scale, with, in shocking contrast, small islands of extreme wealth; unemployment, underemployment and marginality are widespread; social inequality and the concentration of income and wealth are enormous; and the degree of vulnerability, disequilibrium and external dependence continues to be high.

As regards the conjunctural situation, the figures are deplorable: a slump in production and real income for the first time in forty years; an appalling increase in unemployment, especially in the cities; gigantic external and internal debts; speeding-up of inflation; fiscal, monetary and external imbalances; growing social and political tensions and conflicts. Notwithstanding the heterogeneity of situations in the Latin American countries—large and small, more and less industrialized and urbanized, net importers and net exporters of petroleum—and the differences between them in respect of economic policy, the crisis affects all alike, although in varying degrees of intensity.⁵

The generalized character of the crisis in Latin America has induced many, especially governments and those responsible for economic and financial policies, to regard it as of external origin (just as not many years ago they attributed the boom—brought about by virtue of exceptional external borrowing—to the wisdom of their internal policies). Blame is laid on the high interest rates that were engendered by the depressive monetarist policies introduced towards the end of the Carter administration and were accentuated by the giant fiscal deficits built up under the Reagan régime, in combination with the rather original contribution of the "supply siders"; on the world recession and the contraction of international trade; on the deterioration of the terms of trade; and on the drying-up of capital flows.

But this does not account for the fact that although the crisis is indeed generalized, it is no less true that its intensity and characteristics differ markedly from one country to another. For example, the steepest drops in production, income and employment are observable chiefly in the countries of the Southern Cone and some

others which have faithfully adhered to the monetarist prescriptions and the stabilization programmes of the International Monetary Fund.⁶ This being so, even though the crisis may have a common external origin, there can be no doubt that its internal effects have been attenuated or aggravated by the countries' own characteristics, their previous development strategies and their policies for dealing with external problems.

Nor does it explain another singularly significant fact. As has already been pointed out, notwithstanding the frequent comparison of this crisis with that of 1929-1932, the two phenomena are not, up to now at least, very much alike. It is worth while briefly to recall that during the earlier period the gross product of the main industrial countries plummeted by about 20% between 1929 and 1932, while total world imports shrank to one-third. Unemployment swelled to enormous dimensions and nominal wages fell; but as prices declined by a similar proportion, real wages were maintained. Profits vanished into thin air and investment stopped dead. Money stocks were reduced, along with short-term interest rates. The national and international financial system underwent a severe crisis; many banks failed in the United States and Europe; and governments had to intervene or abandon the gold standard.⁷ Between 1980 and 1983, on the other hand, although GDP and foreign trade witnessed a reduction in their rate of increase they did not significantly decrease in absolute terms. Unemployment, although high, does not approach the figures for the former period, and movements of prices and wages are very different, as are also the characteristics of the financial system.

What is more, in 1974 and 1975 a similar recession took place, without causing Latin America's economic policy the least headache. Why should it happen that now, in contrast with recent recessions and with the 1930 crisis, the centre has only to sneeze for the Latin American region of the periphery to suffer a heart attack? Why, it may also be asked, is this upheaval so explosive in Latin America, while its effects on

⁵For the most recent detailed description, see Enrique V. Iglesias, "Preliminary overview of the Latin American economy during 1983", in this same issue of the *Review*.

⁶*Ibid.*, table 2.

⁷See Charles P. Kindleberger, *The world in recession 1929-1932*, London, Allan Lane, the Penguin Press, 1973.

the other regions of the Third World are much less virulent? Why, on the other hand, does it seem to have got past the Iron Curtain, and had some impact on several countries in the socialist area?

To be able to answer these and other germane questions it is of fundamental importance to understand the nature of the crisis. In essence, two attitudes towards it are taken up. One maintains that it is just a recession, somewhat more protracted than is usual, in which unfortunately several coincident negative factors have combined to produce particularly severe effects in Latin America, but that there are already signs of recovery in the United States; one must be patient and "adjust" until its positive effects begin to make themselves felt, for then will come a new phase of expansion that will alleviate the acute problems of today.

Another very different view sees this as a deep-seated structural crisis, in which the recessive and financial problems, as well as the more manifest disequilibria, are only symptoms which may easily be confused with a transient recession, but behind which in reality lies a profound and immensely far-reaching long-term crisis, whose outcome cannot be forecast with any certainty. It is essential to take up a position *vis-à-vis* these alternatives. In the first case, the appropriate strategy is to ride out the storm until it dies down, and to go ahead with the traditional development strategies. In the second case, it is a matter of understanding that there is no such passing storm, but the tempestuous close of an expansionist epoch or phase of capitalism, and that an attempt must be made to advance by new routes, learning from the lessons of the past, but not turning back, exploring new future options, and all this in a turbulent and difficult international context, very different from that prevailing in the first decade or two after the war. This is the alternative towards which the author of the present study inclines, for reasons that will be set forth more fully below.

Before attempting an interpretation of what I hold to be a deep-seated crisis of the post-war development style, which in my opinion calls for fundamental changes in the development strategies of Latin America and entails powerful regional and Third World co-operation, I must refer to the economic reactivation or recovery

which is taking place in the United States, and on which many authorities in the national and international economic and financial world are pinning such high hopes.

It is important to form a clear judgement of this phenomenon, for if it is confidently felt to be the beginning of a recovery which will subsequently draw the industrialized world in its wake to a new phase of sustained and dynamic expansion, creating the right conditions for the Third World to enter upon a fresh spell of rapid growth, and therewith the requisites for lightening the heavy burden of external debt servicing, there might be some justification for short-term adjustment policies. If, on the other hand, the real outlook were not so flattering, the costs of persisting in adjustment policies and postponing radical changes in development strategy might be overwhelming.

In contradistinction to the optimistic declarations of the national and international economic and financial authorities, eager to create an atmosphere of confidence, a review of the specialized press, and of some recent reports by international institutions, reveals little reliance on the durability of a short-term, still less of a medium- and long-term recovery, or on the possibility that the positive drive will be efficaciously transmitted to the Third World.

Particularly significant are the recent declarations of Mr. Fritz Leutwiler, President of the Bank for International Settlements (BIS). This bank, together with the International Monetary Fund, is the nearest thing there is to a world central bank. Apart from the fact that its annual reports carry indisputable authority, in recent years the Bank has been at the eye of the financial storm, actively participating with IMF in debt renegotiations between the biggest borrower countries and the leading creditor banks.

In a recent address Mr. Leutwiler warned that it would be dangerous to assume that the industrial world is "about to enter an era of high and sustained growth", which is a prerequisite for any expansion of the developing countries' exports. "Anaemic economic growth in Western countries would annihilate the hopes of less developed countries to expand their exports to any significant degree", which means that the debt problem is likely to drag on for a long time and there is no alternative but to ask the banks to

continue helping countries to finance their debts. He added that "one should start looking for alternative ways to reduce the debt burden of developing nations". One possibility, he suggested, was for the countries in question to "sell some of their national assets to their creditors. For those countries with large endowments of natural resources or profitable State-owned enterprises, this is certainly an option worth considering" (*Financial Times*, 5 December 1983, p. 1).⁸

These gloomy pronouncements coincide with those of various recent commentators and reports.⁹ First, it is acknowledged that the recovery of the United States economy is very vigorous and that growth rates varying from 4.5 to 5.4% might be reached in 1984 (forecasts by OECD and the National Institute of Economic and Social Research, United Kingdom, respectively). Many commentators note, however, that the rate of recovery will slacken next year with the flagging of the initial drive generated by demand on the part of certain consumer expenditure sectors and by replenishment of inventories. They also think that the maintenance of high real interest rates, strengthened by enormous and persistent fiscal deficits and by the recovery itself, together with the weakness of other sectors of demand, part of which is filtered off towards imports favoured by an overvalued dollar, will hamper the recovery of investment, since there is a wide margin of idle capacity which is being taken up

very slowly. In these circumstances, the initial impulse deriving from the expansion of consumer expenditure is not likely to result in an increase in investment, and unless this were to revive expansion could not be sustained.

The vigorous United States recovery would not seem, however, to be reproducible in the other OECD countries. In several of the smaller countries and in France and Italy, monetary and fiscal policies will continue to be restrictive in view of heavy fiscal deficits, rates of inflation that are still high, shaky external accounts and pressure on exchange rates, accentuated by the high United States interest rates and the strength of the dollar. The conservative governments of the United Kingdom and the Federal Republic of Germany, too, have declared that they will go on pursuing their restrictive fiscal policies.

With a more monetarist approach, BIS reaches similar conclusions. It maintains that the progress already made in reducing inflation should itself foster recovery by setting afoot several processes: an increase in the real money supply, reduction of the real losses sustained by holders of financial assets, expansion of saving and the propensity to spend, capital gains, entrepreneurial confidence, a backlog of demand in respect of durable goods, housing, replenishment of inventories and even investment. It points out, however, that these processes are highly sensitive to the level of interest rates, especially in real terms. In this sense it would seem that the progress made is insufficient. Although normal interest rates have come down, they have done so by less than the decline in inflation, particularly in the long-term market. Consequently, the real interest rate remains at levels that are historically high, especially for a period of recession. A major cause is to be found in the present and predicted United States budget deficits. If this situation remains unremedied, the risk will persist that the recovery will be aborted.¹⁰ Recently Professor Martin S. Feldstein, Chairman of the Council of Economic Advisers to the President of the United States, fluttered the dorecotes by asserting that "it would be unwise to assume that growth alone will reduce the deficit to an

⁸This is neither the time nor the place to discuss so disquieting a hint of mass transfer of the natural and public wealth of our countries as a means of attenuating external indebtedness, except for the purpose of drawing attention to the strategies which the international financial community may be exploring. Furthermore, it is logical to suppose that this process must already be taking place in the private sector, in which respect too it would behove us to keep our eyes open.

⁹The next section is based mainly on the following documentation: Bank for International Settlements, *Fifty-third Annual Report*, Basle, June 1983; United Nations, *World Economic Survey 1983. Current trends and policies in the world economy*, New York, 1983; UNCTAD, *Trade and development report, 1983* (Part I. The current world economic crisis), September 1983; *Financial Times*, "Financial Times Survey: Europe", 5 December 1983; Anatole Kalesky, "West Europe's economies: sink or swim together", *Financial Times*, 5 December 1983, p. 16; *International Herald Tribune*, "Euromarkets, a special report", Part I and Part II, 28 and 29 November 1983, pp. 7-15 and 9-14, respectively.

¹⁰Bank for International Settlements, *Fifty-third...*, *op. cit.*, p. 31.

acceptable level" (*International Herald Tribune*, 6 December 1983, p. 13). He added that if Congress did not act soon to reduce the deficits, it ran the risk of plunging the United States economy back into recession (*Ibid.*, 28 November 1983, p. 10).

The above-mentioned institutions predict a growth rate of 3.3% for the European economies in 1984, which seems decidedly hazardous in the light of the individual countries' situations, and in comparison with the 1.5% forecast by the European Economic Community.

Forecasts suggest that unemployment will continue to increase in the ten EEC countries throughout the recovery, and even through the rosier-coloured spectacles no significant effects on unemployment figures can be glimpsed ahead. Private economists who extend the analysis beyond 1984 do not think that the recovery will become more marked in 1985, but rather that there is likely to be a fresh setback in 1986.

Even if a significant recovery takes place, as the more encouraging forecasts suggest, it in no way guarantees immediate relief for the Third World countries. To that end, essential requisites are an expansion of demand for imported primary commodities and manufactures, willingness on the part of importers to increase their purchases and stocks, and an upward trend in the prices of the products in question in relation to exports from the industrial world (many of these tied to the overvalued dollar). In turn, it will be necessary, *inter alia*, for the expansion of spending in the centres to be channelled towards sectors directly or indirectly using inputs from the Third World; for reactivation prospects to be sustained and for interest rates to fall, so that importers may have medium-term incentives to step up their purchases and replace inventories; for unemployment to be reduced so as to attenuate protectionism; and for income and demand to be strengthened in the lower-income sectors.

The difference between the rates of economic recovery in the United States and in the European economies is also of importance for the Third World, since the members of the European Economic Community, whose growth will be less, absorb almost one-fourth of total world imports (excluding intra-Community

trade) while the United States accounted for only 15% in 1980.

For all the foregoing reasons, the prospects of the recovery's being reflected over the short term in significant increases in demand and prices for the primary commodities, food products and manufactures exported by the underdeveloped countries look very doubtful, especially if the recovery, as everything seems to suggest, has little likelihood of being maintained.

What is more, the underdeveloped world, far from contributing to the recovery as it has done in the past, helps to limit it. The suspension of the flow of private external financing into these countries on account of their heavy external indebtedness, the insufficiency of official financing to stabilize the balance of payments, the reduction of external aid and the deterioration in the value of exports, besides substantial losses of reserves, have compelled many countries to adopt stricter austerity policies and to compress their imports severely, and this has strengthened deflationary pressures in the industrial countries.¹¹

To the prospect of a relatively ephemeral recovery must be added another factor with potentially explosive short-term repercussions, which may help to prolong stagnation over the medium and long term: the highly delicate international financial situation.

A political and strategic factor at the international level, which is undoubtedly causing far greater concern to the United States and Europe than the economic and financial crisis, is the sensation of standing on the threshold of a direct or indirect armed confrontation between the superpowers, in the strategic fields of Europe, the Middle East, Central America and the Caribbean. Almost ludicrous though it may seem to speak of any of the economic consequences of a war of incalculable projections, two at least cannot but be mentioned. Firstly, on the one hand, the fear of an armed conflict encourages the purchase of dollars for security reasons, which weakens European balance-of-payments positions and supports the trend towards overvalua-

¹¹The current value of Latin American imports has shrunk by almost one half between 1981 and 1983: from US\$ 90 billion to US\$ 56 billion (see Enrique V. Iglesias, *Preliminary overview...*, *op. cit.*, table 1).

tion of the dollar, enlarging the United States trade deficit and intensifying protectionist pressures. On the other hand, there is a prospect of further increases in United States military budgets and of the maintenance of the inordinate fiscal deficit and the high interest rates. It is a remarkable paradox that Europe, which will be the first victim of a flare-up of hostilities, is helping to finance this policy.

A second factor is uncertainty with respect to the stability of the international banking and financial system. William R. Cline, a recognized specialist in this field, estimates that if Brazil were to declare a moratorium for a specific period half the profits of the nine leading United States banks would be wiped out, which would precipitate a run on the banks and would compel the Federal Reserve Bank to support them. Even if it did not entirely eliminate profits or seriously affect capital in most cases, it would undoubtedly be a severe blow to the economy. The incentives for debtors to "walk away from their obligations" are increasing: in 1982 the interest paid by the non-petroleum-exporting developing countries (US\$ 59.2 billion) exceeded net inflows of capital (US\$ 57.4 billion). The same writer describes the situation as one of "an underlying structural vulnerability in international lending" (*International Herald Tribune*, 28 November 1983, p. 9). The defaulting crises of Mexico and Brazil, during their crucial phases, sharply reduced the value of the shares of the banks most deeply involved and obliged the United States Treasury to mount rescue operations to avert the risk of a run on the banks and the failure of some of them. The President of BIS remarked, in the address quoted above, that while the financial world was much better prepared than a year ago to handle a possible default, this was still something that could not be ruled out. He was no doubt referring to the emergency renegotiation operations which had been organized and to the intolerable pressures to which the governments of the debtor countries have been subjected by the International Monetary Fund, and which have caused the stability of more than one to totter.

The delicacy of the international political and financial situation has its internal repercussions in the creditor countries themselves. The authorities controlling the United States banks currently record the largest number of financial

institutions in danger of bankruptcy since the 1930s. The Federal Deposits Insurance Corporation (FDIC) considers that more than 600 banks are at risk of failure, and the authorities were expecting that number to increase before the end of 1983 (*International Herald Tribune*, 26-27 November 1983, p. 11). Two recent reports, one from the Treasury Department and one from the House Ways and Means Committee, state that the two most important bank control institutions—the Office of the Comptroller of the Federal Bank and FDIC—are incapable of detecting potential bank crises and enforcing preventive and remedial measures. The National Bank of Switzerland is to request five new sets of informational data from the banks, including details on their external activities, this latter on account of the international financial crisis which has shown that effective supervision of the international banks is impossible if their external subsidiaries are not taken into account (*Ibid.*, 30 November 1983, p. 13). And this in a country where there are no cases of banks overinvolved in loans to heavily indebted countries, a state of affairs which the Swiss bankers themselves attribute, of course, to the strict provisions regarding capital assets coefficients with which they have to comply (*Ibid.*, 29 November 1983, p. 12).

And it must not be forgotten that the displacement of governments committed in the 1970s to the monetarist policy of external openness, and of their technical cadres linked with the transnational banks and responsible for the immense external debt and its consequences, will imply significant changes in these countries' bargaining position. Not unconnected with this concern is the attention devoted by the international press to the recent elections in Argentina and Venezuela, and the satisfaction expressed that in both cases ample democratic majorities were obtained. This would make it possible for the new presidents to impose severe austerity policies "acceptable to the international banks" (*Financial Times*, 6 December 1983, p. 18). Here the dilemma posed at the beginning of the present article appears in its crudest guise: it is hoped that these new presidents will govern in accordance with the interests of the international banks, which certainly do not coincide with the needs of the peoples who elected them.

The nerves of the world financial authorities

are on edge and public opinion in the countries in question is by no means willing to see their tax payers helping to subsidize rash and irresponsible bankers while they themselves are subjected to austerity policies which reduce employment and social services. The same view is taken by the small and medium-sized banks, which put up much of the external financing of the big banks through syndicated loans, and which are now involved in the renegotiation processes being carried out by those that are the most deeply committed. The Michigan National Bank is suing the City Bank in a legal battle which is being watched with the keenest attention by international banks throughout the world. Michigan National is challenging City Bank's decision to effect a rollover of its share in a loan to Pemex without its consent. This is the first case of its type in recent years, and its settlement could have important repercussions on the viability of many

recent debt renegotiations (*Ibid.*, p. 21).

In short, the national and international financial world gives the impression of a minefield into which the chief protagonists —banks, international financial institutions, governments— are venturing with more equipment in the way of experience and devices to detect and temporarily defuse the mines and to look after the wounded when they stumble against one. But as yet there are no signs of any real effort to mount a systematic cleaning-up operation. Attention is focused on the very short term. The banks and governments of the industrial countries and their chief agent —the International Monetary Fund— want to lay on the debtor countries the whole burden of the cost of adjustment, subjecting them to intolerable economic, social and political demands, and all this in the hope that on the road to recovery the loads will be accommodated.

IV

The exhaustion of the transnational growth style

In my exploration of this field I shall seek the company of several authorities, seeing to it that they represent a broad ideological spectrum. According to Paul Samuelson, Nobel Prize winner in Economics, whose position is well in the centre of the doctrinal gamut, no one can confidently predict the future; but after careful consideration he thinks the last quarter of the twentieth century will show a rate of economic progress far below that attained in the third quarter.¹²

Within the Marxist tradition, one of its most outstanding representatives, Professor Ernest Mandel, by the early 1970s already saw in the 1974-1975 recession one of the recurrent crises of the capitalist system, characterized since the mid-1960s by a decline in the profitability of enterprises in consequence of a twofold process of overaccumulation of capital and underconsumption. The boom phase of the lengthy cycle which the system is experiencing at present

would seem to have come to an end in 1967, when a long recessive phase began.¹³

The third quotation, from a conservative standpoint, comes from the BIS document already cited on several occasions. "The process of disinflation upon which the Western industrial world had embarked in the wake of the second oil crisis... has been accompanied, at least until recently, by stagnation of output in the industrial world as a whole. It is probable that the wrong policy mix, i.e., the excessive burden borne by monetary policy in imposing global restraint, made the stagnation more protracted than it would otherwise have been. And it is certain that by exerting upward pressure on interest rates the policy mix has had a particularly inhibiting influence on capital formation, thus mortgaging future growth potential. But one should forget that the Western industrial coun-

¹²"The world economy at century's end", *Japan Economic Journal*, 10 March 1983.

¹³See *Late capitalism*, London, New Left Books, 1975; *The second slump: a marxist analysis of recession in the seventies*, London, New Left Books, 1978.

tries' growth problems did not begin three years ago, when they jointly undertook to resist the cost-push of the second oil shock. The first signs of a break in growth trends, at least as far as fixed capital investment is concerned, were evident in the late 1960s and early 1970s, well before the first oil shock. The deeper-seated causes of the break remain uncertain, but the more immediate ones are not: the rising share of labour in income distribution, the declining profitability of businesses, the expanding role of the public sector, sluggish capital formation and weakening productivity growth.

"Nor should one attribute the current level of unemployment exclusively to the demand-restraining policies of the last three years. Unemployment, particularly in Western Europe, was on an upward trend well before that, under the combined influence of slower growth, an expanding population and in some countries increases in the labour-force participation rates. Last but not least, the excessive rise in real wage costs and growing impediments to labour mobility gave a major incentive to labour-saving investment and innovations. It is against this background that the recent declines in real wages,

beyond their direct contribution to slowing inflation, are a helpful element of adjustment."¹⁴

The exceptional post-war boom began to fade out by the end of the 1960s (see table 3). In all the industrialized countries productivity increased from the mid-1950s to the mid-1960s. This trend was reversed in almost all cases in the second quinquennium of the 1960s, after which a slight recovery was shown in some countries in the early 1970s, to be followed in the rest of the decade by a slump. This decline in productivity towards the end of the 1960s was also reflected in such indicators as the profitability of enterprises, the decrease in the rate of capital formation and the increase in unemployment. Most of the analyses of the period, which are based on trends in the gross product and in foreign trade, overlook that essential turning-point, since those indicators, after a reduction in the years 1970 and 1971, made a vigorous recovery in 1972 and 1973. Accordingly, many analysts of the crisis take the year 1973 as a major milestone, which in the present writer's opinion introduces a serious

¹⁴See Bank for International Settlements, *op. cit.*, pp. 3-4.

Table 3
THE GROWTH OF LABOUR PRODUCTIVITY IN SELECTED OECD
COUNTRIES 1955-1980
(Percentages)

Country	Total economy				
	Late 50s	Early 60s	Late 60s	Early 70s	Late 70s
United States	1.8	3.0	1.0	1.4	0.3
Canada	1.7	2.5	2.0	2.8	0.2
United Kingdom	2.2	3.1	2.8	3.1	1.1
Sweden	n.a.	4.5	3.1	2.0	0.4
Denmark	5.2	3.7	3.3	2.8	1.3
Norway	3.8	4.5	3.5	1.5	2.5
Finland	3.6	4.7	5.1	4.7	2.5
Netherlands	4.0	3.1	4.4	4.4	1.9
Belgium	2.5	5.2	3.9	4.4	2.4
Germany	4.6	4.9	4.6	4.1	3.2
Austria	5.0	4.6	6.4	5.2	2.8
France	4.3	5.0	4.5	4.7	2.9
Italy	4.6	5.0	6.2	4.2	1.7
Japan	8.4	12.5	8.6	6.3	3.0

Source: Herbert Giersch and Frank Wolter, "Towards an Explanation of the Productivity Slowdown: An Acceleration-Deceleration Hypothesis", in *The Economic Journal*, 93, March 1983, table 1, p. 36.

bias into the analysis, by attributing the end of the post-war era of expansion implicitly and often explicitly to the oil crisis. The fact that the process of stagnation had begun by the mid-1960s is thus lost sight of.¹⁵

In order to see this phenomenon in a clearer light, it should be fitted into a broader historical framework (see table 4). This throws into relief something which economists had forgotten, or which, with their characteristic arrogance, they thought had been overcome by the progress and perfecting of economic policy: the irregular, cyclical nature of capitalist development, not only over the short and medium but also over the long term. It can be seen that from the beginning of the nineteenth century to our own time capitalist development has passed through several protracted phases of expansion and stagnation of production, per capita income, productive fixed capital formation and exports (see table 4).

¹⁵This phenomenon is well documented. See H. Giersch and F. Wolter, "Towards an explanation of the productivity slowdown: an acceleration-deceleration hypothesis"; A. Lindbeck, "The recent slowdown of productivity growth"; and E.F. Denison, "The interruption of productivity growth in the United States", all in *Economic Journal*, 93 (March 1983). See also D.M. Leipziger, "Productivity in the United States and its international implications", *The World Economy*, Vol. 3, No. 1, June 1980; T.P. Hill, *Profits and rates of return*, Paris, 1979; S. Rosenberg and T.E. Weisskopf, "A conflict theory approach to inflation in the postwar US economy", *American Economic Review*, Vol. 71, No. 2, 1981; OECD, *Economic Outlook*, December 1978.

The first phase of expansion lasted almost a century, up to 1913; then supervened a long wave of recession between 1913 and 1950; next a new and very marked expansionist cycle followed, between 1950 and 1973; and later still, between 1973 and 1979, came the dawn of what would appear to be a new and long-drawn-out phase of recession. This last period really began several years before, and the last few years should also be added, making up a period of about 15 years of relative stagnation. It is not surprising, therefore, that there should have been a revival of Kondratieff's theory of long waves or cycles.¹⁶ Does this last period really constitute the beginning of a lengthy phase of stagnation, or is it merely a matter of taking a deep breath, or heaving several profound sighs, before resuming the noteworthy rate of expansion characteristic of the period following the War? To decide this point, it is necessary to examine the nature of that extraordinary phase of expansion and to see whether the conditions on which it was based still exist or have

¹⁶See, for example, Angus Maddison, *Phases of capitalist development*, Oxford and New York, Oxford University Press, 1982; W.W. Rostov, "Kondratieff, Schumpeter and Kuznets: trend periods revisited", in *Journal of Economic History*, December 1975, and his book *The world economy*, London, Macmillan, 1978. See also Mandel, *op. cit.*, and the special number of *Futures* (Vol. 13, No. 4, August 1981) on "Technical innovation and long waves in world economic development", edited by Christopher Freeman.

Table 4
GROWTH CHARACTERISTICS OF DIFFERENT PHASES, 1820-1979
(Arithmetic average of figures for the individual countries)

Phases		(Annual average compound growth rates)			
		GDP	GDP per head of population	Tangible reproducible non-residential fixed capital stock	Volume of exports
I	1820-1870	2.2 ^a	1.0 ^b	...	4.0 ^a
	1870-1913	2.5	1.4	2.9	3.9
II	1913-1950	1.9	1.2	1.7	1.0
III	1950-1973	4.9	3.8	5.5	8.6
IV	1973-1979	2.5	2.0	4.4 ^c	4.8

Source: Angus Maddison, *Phases of Capitalist Development*, Oxford University Press, 1982, p. 91.

^a Average for 13 countries.

^b Average for 10 countries.

^c 1973.

disappeared. To that end, I shall examine some aspects of the evolution of the primary factors of production (human, natural, capital and energy), of the state of the productive forces and their technological base, and of the national socio-political organization and its international context.

As regards productive resources, it should be recalled that the labour force has increased significantly in the developed countries, as a result of the population explosion recorded in the United States after the Second World War and the immigration into Europe, especially into West Germany, of the displaced population of the countries of Eastern Europe. Subsequently, this manpower contingent went on expanding in the North Atlantic economy in consequence of immigration from the European and United States periphery, the "Gästarbeiter" phenomenon in Europe, and the quotas of Mexican, Central American and Caribbean immigrants in the United States.

With respect to raw materials, investment in mineral, energy and agricultural resources was rapidly renewed after the Second World War in view of the prospects of expansion of United States and, later on European and Japanese demand, both for the purposes of reconstruction of these economies and to supply the demand deriving from the cold war and from hostilities such as those in Korea and other subsequent conflicts. A factor of importance in facilitating this investment was the gradual dismantling of the European colonial empires in Asia, Africa and the Caribbean, which opened up these countries to United States, German and Japanese investment.

Where capital infrastructure was concerned, the United States economy had not succeeded in fully utilizing its accumulated productive capacity until the last stage of the Second World War. And this tempo of activity was not recovered until the end of the 1940s.

This incorporation of relatively idle factors of production into the economic process was possible thanks to an exceptional expansion of global demand. It was manifested mainly in the resumption of military expenditure on rearmament in consequence of the start of the cold war as from 1948, the Point IV programme to support the development of the less developed

countries, the Marshall Plan for the reconstruction of the European countries devastated by the War, the creation of the European Common Market, the introduction of a set or redistribution and full employment policies, as part of the conception of the Welfare State, and the generalization of the United States life style and consumer patterns in the European countries and Japan at first, and later among the privileged sectors in the rest of the world.

The logistic support for the establishment of the political, military and economic hegemony of the United States was, moreover, one of the chief sources of the extension of the great United States oligopolical corporations to the rest of the developed and underdeveloped world, or, in other words, one of the bases on which the transnational enterprise was able to expand at world level until in time it contributed to the generation of the transnational system.

The sustained expansion of demand and of internal and international markets, the utilization of accumulated production capacity and the enlargement of scales of production in the big multinational corporations, the introduction of technological innovations deriving from the Second World War and from the nuclear and space race of the post-war decades, together with the mass adoption of United States vanguard technology in the European and Japanese economies, made possible a striking increase in capital formation, radical changes in the structure of production, economies of scale, agglomeration and conglomeration, and improvements in productive efficiency, with a marked upswing in the productivity of labour. Behind all this a major contributing factor was the low price and gradually increasing cheapness of petroleum, the source of energy which came to be predominant in the post-war economy. This new energy base in process of expansion facilitated the increase in labour productivity by promoting the rapid and mass substitution of capital equipment for manpower. This was reflected, furthermore, in greater dynamism in those sectors of the economy that were most directly linked to the utilization of so exceptionally versatile and cheap a source of energy: the motor-vehicle industry, the metal-working and electronics industries producing durable consumer goods, the petrochemical industry, and the artificialization

of agriculture (mechanization, chemical inputs, artificial climate and conservation).

This combination of factors was favourable to a highly oligopolized economic structure, in which the dynamics of competition between the great transnational corporations was increasingly channelled into rapid innovations in technology and design, differentiation of output, and inordinate promotion of consumption and manipulation of the consumer, through scientific publicity and sales techniques as well as the almost unlimited extension of consumer credits: all this based on a veritable revolution in communications.¹⁷ The levels and patterns of consumption of individuals, families and society as a whole became their central social objectives and values, determining their social status within the national framework and in the international system. The demonstration effect came to be the lode star of social aspirations both among countries and among the social classes in a single country, and the development criterion and ideology of national growth and "modernization", taking this to mean the assimilation and reproduction of the behaviour patterns, values, consumption, technology, social and even institutional and political organization characteristic of the industrialized countries and in particular of the United States.

In the case of Latin America this interpretation of development policy took formal shape in the Alliance for Progress. The idea, in essence, was to promote economic growth by means of major transport, communications and energy infrastructure projects, in order to facilitate industrial development, the modernization of agriculture (including its institutional transformation through agrarian reform) and urbanization, which, together with the expansion of general and higher education, were aimed at building up large urban middle classes; these, by sharing the life style, consumer patterns and values of the developed world, would be the pillars of an economic development of capitalist character under a democratic political system, closely linked to the North Atlantic alliance.

As has been noted, the exceptional dynamism of this economic growth style of the indus-

trialized countries began to slacken at the end of the 1960s. The reasons are of various kinds. In the first place, during the period analysed, and especially in its early phases, there were certain initial conditions and factors and unique phenomena that were irreproducible, such as the existence of idle capacity in the United States economy, European reconstruction, the integration of Europe, industrial and agricultural modernization, especially in Europe and Japan, and the liberalization of international trade, all of which helped to stimulate expansion, but once their possibilities were exhausted disappeared from the scene.

Another group of factors served as driving forces up to a point, but in so far as their use was extended beyond certain limits they changed from positive to negative and began to turn into constraints on expansion. Cases in point were the increasing costs for the State of financing gigantic military set-ups and performing income redistribution and social welfare functions, and the rise in the real cost of labour deriving from full employment policies and the strengthening of the trade unions' bargaining power. These were at first factors making for the expansion of demand, but when certain levels were exceeded they resulted in a reduction of the profitability of enterprises and in inflationary pressures, either on account of the fiscal deficit or because of increased taxation.

The expansion of foreign investment through the transnational corporations also enjoyed an extremely dynamic and positive phase, but the time came when high real costs of labour, heavy taxation and environmental protection requirements meant that the profitability of the subsidiaries surpassed that of the parent firms. These latter began to transfer their operations en masse to other countries, developed, underdeveloped and even socialist, not only to broaden their markets, but, what was more, to re-export from them to their countries of origin, ousting traditional activities in the process of generating unemployment problems.¹⁸

Another phenomenon of this type is the rapid reconstruction, modernization and exceptional dynamism of the European and Japanese

¹⁷See F.M. Scherer, *Industrial market structure and economic performance*, Chicago, Rand Mc Nally, 1971.

¹⁸See F. Fröbel, J. Heinrichs, O. Kreye, *Die neue internationale Arbeitsteilung*, Reinbek bei Hamburg, Rowohlt, 1977.

economies, which at first contributed to the economic expansion of the industrialized centre, but which as time went by began to cause friction among the countries forming it with the intensification of competition among the European countries, between these and the United States and between Japan and all the rest. Trade deficits were thus generated in the less competitive countries, which adopted restrictive and protectionist policies, thereby cramping not only their own expansion, but also that of the more dynamic countries, and indirectly that of the less developed countries and in the last analysis of the entire world economy.

A similar case was that of the developing countries which diversified and expanded their exports of non-traditional items and manufactures and began to gain a foothold in the markets of the industrial countries; in so far as they multiplied, grew and were successful, they created problems of equivalent activities in the industrial countries, which provoked the corresponding protectionist reaction.

The increasing United States trade deficit generated by these differential trends in productivity and international competition, and aggravated by military, external aid and foreign investment commitments and by such events as the hostilities in Vietnam, finally led to the relinquishment of the dollar/gold standard in August 1971. This marked the collapse of the system of international economic institutions established at Bretton Woods, with the dollar as a reserve currency, on the basis of the fact that at the end of the War the United States possessed a gold reserve much larger than that of all the other countries put together. By virtue of the process described above, this situation underwent a radical change. In 1950 the Federal Republic of Germany, Italy and Japan together possessed a reserve of US\$ 1.4 billion which by 1970 had increased to almost US\$ 24 billion; United States reserves in the same period dropped from US\$ 24 billion to US\$ 14.5 billion, and went on rapidly falling.

As the vulnerability of the dollar became increasingly patent, a number of speculative manoeuvres against the existing parities were initiated, facilitated by the elimination of exchange controls in Europe and the rapid expansion of

the Eurocurrencies market, in which it was easy to obtain credit for speculative purposes. The agreement reached in December 1971 on the management of exchange adjustments was annulled in 1973, inasmuch as fixed parities were no longer possible in face of the creation of an international financial market which facilitated speculation. Once again an expansionist process of trade and financial liberalization took place, which in a world of fixed and foreseeable parities had facilitated international trade and investment during a given period, but which in face of growing real imbalances among the member countries and the re-creation and vast expansion of an uncontrollable transnational private financial market fell a prey to speculative instability. The introduction of fluctuating exchange rates brought permanent instability into the system, and with it uncertainty and extreme caution in respect of productive investment, especially of a long-term character.

The energy crisis might be regarded as an exogenous shock which had an impact on the situation at two key points of time: 1973-1974 and 1979. But from a longer-term standpoint we have been formulating the hypothesis that this was one of those virtuous circles which become vicious circles in the course of time. Because of the United States' exceptional resource endowments and its relative shortage of manpower, it had tended ever since the last century to adopt capital-intensive technologies. The plentifulness of oil resources, and the price and other advantages of this fuel, encouraged its widespread use and dissemination in the motor-vehicle and petrochemical industries and in the manufacture of electrical household appliances. Hence was engendered the development style described above, based, *inter alia*, on intensive utilization of this source of energy, and, in general, of all the natural resources and environmental conditions which were exceptionally abundant in the United States. With the transnationalization process this style was generalized throughout the world, whereby demand for petroleum expanded to an inordinate extent and became increasingly inelastic as it was to a greater or lesser extent incorporated in patterns of technology, of production, of consumption, of territorial organization and of human settlements in all countries, in-

cluding those lacking in oil.¹⁹ Thus it was that the petroleum-exporting countries realized that specific geopolitical circumstances had been created which allowed them to form a cartel and fix prices at a much higher level.

Whatever the interpretation of this phenomenon, its effects on the international economy have been of the greatest importance. In the first place, it has caused a structural costs inflation effect on account of the restriction of supplies of a basic input; secondly, it has rendered obsolete a considerable proportion of the fixed capital structures whose operation depended upon petroleum, with the consequent capital losses; and in addition it has considerably enlarged the deficits on current account of the petroleum-importing countries. At the same time it contributed to the formation of the transnational banking system and the infusion of a formidable mass of liquidity of some US\$ 2 000 billion into the international economic system during the past decade. This was a means of preventing an even worse recession, but it helped to generate very strong additional inflationary pressures, especially as a result of the 1979 oil crisis. Hence a new direction was given to economic policy: the economic growth and full employment targets adopted after the Second

World War were abandoned, and every effort was concentrated on counteracting inflation and restoring basic systemic equilibria through a monetarist purge.²⁰

Economic stagnation and growing unemployment, increasingly intensive inflationary pressures and the contradictions deriving from a succession of short-term policies designed to "warm up" and "cool down" the economy time and again, were reflected in greater social tensions and subsequently led to the breakdown of the coalition between capital, the middle-income sectors and labour, which was the political cornerstone of the Welfare State and of the Keynesian policies of full employment and expansion of consumption that characterized the prolonged post-war boom. What was possible in a period of expansion, when the struggle for redistribution was taking place in a situation in which everyone could gain, became impossible in a situation of stagnation, when the gains of some were obtained at the expense of the rest. It seems to me that this fundamental political fact—the disruption of a broad social and political consensus which extended from organized labour to the entrepreneurial sectors, and included the large middle-income strata of professionals, technicians and employees of public and private bureaucracy—is what lies behind the resurgence of a highly reactionary position on the political right wing (and of a thoroughgoing revolutionary one on the left).

The reactionary position has two major manifestations: the use of the monetarist model as a macroeconomic explanation, and, more essential still, the philosophico-ideological return to the classic traditions of Adam Smith's capitalism, that is, a radical revaluation of individualism. Society is not made up of social aggregates—classes, groups—but of individuals; everything can and must be interpreted in supply, demand and market terms, be it law, the State, society, family life or marriage: to everything can and must be applied the economic cost-benefit analysis. All this comes to constitute an ideology, a political programme, in which an attempt is made to dismantle the State apparatus as far as possible. The Welfare State system is severely pruned because

¹⁹The hypothesis set forth can be applied, with the appropriate reservations, to other non-renewable as well as to renewable natural resources, and particularly to certain ecosystems of critical significance for human survival in specific localities. This subject has been explored in recent years by the Joint ECLA/UNEP Development and Environment Unit in a number of studies: *Estilos de desarrollo y medio ambiente en la América Latina*, selection by O. Sunkel and N. Gligo, Serie Lecturas No. 36, Mexico, Fondo de Cultura Económica, 1980; O. Sunkel, *La dimensión ambiental en los estilos de desarrollo de América Latina*, E/CEPAL/G.1143, Santiago, ECLA/UNEP, 1981; N. Gligo, "Estilos de desarrollo, modernización y medio ambiente en la agricultura latinoamericana", in *Estudios e Informes de la CEPAL* No. 4, E/CEPAL/G.1117, Santiago, ECLA/UNEP, 1981; "Estilos de desarrollo de la industria manufacturera y medio ambiente en América Latina", in *Estudios e Informes de la CEPAL* No. 11, E/CEPAL/G.1196, Santiago, ECLA/UNEP, 1982; "Informe del seminario regional sobre metropolización y medio ambiente", E/CEPAL/L.266, Santiago, 1982; "Estilos de desarrollo, energía y medio ambiente: un estudio de caso exploratorio", in *Estudios e Informes de la CEPAL* No. 28, E/CEPAL/G.1254, Santiago, ECLA/UNEP, July 1983; *Expansión de la frontera agropecuaria y medio ambiente en América Latina*, CEPAL/CIFCA, Madrid, 1983; *Sobrevivencia campesina en ecosistemas de altura*, E/CEPAL/G.1267, Santiago, ECLA/UNEP (in the press).

²⁰Bank for International Settlements, *Fifty-third Annual ...*, op. cit.

it interferes with each individual's decision as to what he must do with his income; State intervention in respect of investment is also restricted; and the weight carried by the State in terms of taxation and in particular of income tax is reduced, in order to demolish a system which deprives the individual of incentives.²¹

Other necessary steps are to destroy the trade union organizations in order to forestall artificial interference in the labour market; to strip the State of all enterprises and activities that can be privatized; and, of course, not only to apply the principle of *laissez-faire* in internal affairs, but also to promote total openness of the national economy to the world economy, so that the domestic price system is regulated by the international price system to ensure that static comparative advantages determine resource allocation.

In macroeconomic terms, the monetarist model consists essentially in liberalizing the financial market to the greatest possible extent, eliminating the fiscal deficit and strictly limiting monetary expansion so that the rate of interest may reach its "true" real level, and may serve as the chief instrument for encouraging saving and allocating investment resources. As long as these monetarist policies were applied in industrial countries of secondary importance in the international system, and in underdeveloped countries, the world economy was not affected. But

when this programme began to be implemented in the United States economy, nominal and real interest rates shot up to extremely high levels, not only in that country but throughout the world, whereas they had been barely positive since the War. Thus the recession was exacerbated and prolonged, investment, particularly long-term investment, being restricted, and in many countries the problem of the external and internal debt reached boiling-point.

In the upshot, this attempt at an interpretation of the evolution of the international economy after the War would seem to suggest that the phase of dynamic expansion had come to an end by 1970, as a result of the disappearance, exhaustion and reversal of a number of long-term forces, which were in operation during the period in question and since then have not been replaced. During the 1970s the political and energy bases that supported the development style in question collapsed, and for a conception of economic policy directed towards growth and full employment was substituted another centred on monetary and financial stability at both the national and the international level. Thus a period of serious instability, uncertainty and confusion was generated in both national and international economic policies, which have culminated in an acute and prolonged recession, superimposed upon the long-term structural crisis of the style.

V

A future without reactivation

It is very possible that this diagnosis may be mistaken. But I am in good company.

"The 1980s and 1990s are likely to be decades of profound change: changes in the technological sphere, with massive introduction of computers and the increasing use of robots in the production system; changes in the energy field,

where oil will be replaced by other sources of energy; changes in consumer tastes and their repercussions on consumption patterns; changes in the international environment, especially with the increasing competitiveness of newly industrialized countries; and, last but not least, changes in the financial and international monetary system brought about by the increasing disorder of recent years.

"During most of the post-war period the ECE market economies have shown their adaptability to changing patterns of production and consumption; however, this was essentially achieved

²¹A good summary, with neoliberal leanings, is to be found in H. Lapage, *Mañana, el capitalismo*, Alianza Editorial, 1979. See also P. Dews, "The nouvelle philosophie and Foucault", in *Economy and Society*, Vol. 8, No. 2, May 1979, in relation to the critique of the Welfare State.

under conditions of relatively rapid economic growth. One of the main questions for the coming years is whether, in the present sluggish economic environment, these countries will be able to adapt their economies smoothly to the changes foreseen and whether, under the acute pressure of current problems—like very high unemployment rates—short-term policies may postpone or at least slow down the pace of the necessary structural changes. ...

"A further general conclusion of the present study is that low economic growth and high development levels seem to increase the rigidities of the sectoral structures of production and employment. In the currently prevailing economic environment, these rigidities may imply a long transition period ... in making the necessary structural adaptations."²²

An eminent specialist in technology remarks that "the stock of inventions and innovations now at hand does not give the impression that they could furnish the needed impulse for rapid growth in the developed countries in the period ahead. The experience of the 1970s has underlined that the structural changes which had served to cushion the impact of deceleration also seem to have exhausted their resilience. Nor are the longer-term social aspects (management of enterprises in the economy, an easy to achieve balance between conflicting social interests, a better distribution of income and reduction of working hours) being handled so as to offer the much needed impulse".²³

Maddison's excellent and comprehensive study concludes that the expansionist "golden age" of the post-war decades came to an end in 1973, and that we are entering upon a new era which is structurally different from the period 1950-1970. The following would appear to be the most deep-seated causes: changes in economic policy, where the commitment to maintain high and stable levels of demand has faded out and the dominant influence has become that of monetarism, which as a pre-Keynesian economic

theory shows little concern for growth and full employment; the collapse of the Bretton Woods system and its replacement by a system of fluctuating exchange rates, which introduces instability and uncertainty into the international economic system; changes in the labour and merchandise markets and the creation of strong inflationary expectations as a determining factor in price-fixing and wages; the oil shocks; the end of a phase of rapid increase in productivity in the European countries and Japan, which have now made up the leeway with which they started after the war and are approaching a slowly expanding technological frontier, determined essentially by the United States economy; the exhaustion of the productivity increments attributable to structural transfers from agriculture to industry and to international specialization; and, lastly, the establishment of restrictive policies which reduce productivity by stunting the growth of the stock of capital and undermining the efficiency of resource allocation.²⁴

On the Latin American internal plane, the transnational development style which so dynamically asserted itself during the post-war decades, on the basis of unbridled promotion of imitative consumption, began to show serious shortcomings and disequilibria as early as the 1960s. It managed to keep going until 1980, however, thanks to international liquidity and the great financial permissiveness which made it possible to step up the expansion of consumption, investment and exports by means of external and internal borrowing. The recent international recession has therefore had exceptionally serious repercussions on Latin America, bringing to light in addition the gravity of the structural problems which the development style had long been trailing in its wake, and which the financial boom had made it possible to cover up. They are essentially problems of external imbalance, dependence and vulnerability; of intensive concentration of the fruits of economic and social progress, in terms both of income and ownership and of their geographical comple-

²²United Nations Economic Commission for Europe, *Structural changes and analysis of labour productivity in the ECE market economies and some implications for future economic growth*, December 1982, pp. 57-59.

²³See S.J. Patel, *Reflections on the economic crisis and the Third World* (mimeographed text).

²⁴See A. Maddison, *Phases of ...*, *op. cit.* A similar list is to be found in W. Arthur Lewis, "The slowing down of the engine of growth", *The American Economic Review*, September 1980, Vol. 70, No. 4, pp. 558-559.

ment; and of unemployment, underemployment and poverty and socio-political marginality in very large sectors of the population.

As regards the external structural framework, to the traditional problems of instability and the relative downward trend of commodity prices, exacerbated in a climate of sluggishness and great instability in the industrialized economy, are added strong protectionist pressures, especially in respect of certain traditional agricultural products and the new exports of manufactures which the Latin American countries have been taking such pains to develop in order to diversify their exports and obtain access to an international economy which is now closing its doors to them.

On the imports side, the period of expansion and prosperity in the international economic and financial system permitted the consolidation of a transnationalized segment of the national economies, characterized by life styles and consumption patterns that imply a capital- and oil-intensive structure of production and technology with a high and very dynamic external content. This has been a serious problem not only for the petroleum-importing but also for the petroleum-exporting economies. Severely cutting down imports in order to cope with the long-term maladjustment, in a situation of high petroleum prices and heavy external indebtedness, has implied a radical reduction of domestic consumption and investment, with pernicious effects on employment and levels of living among the low-income majorities. Meanwhile behaviour patterns, habits and expectations have been generated which are totally untenable, and which together with the corresponding aggravation of unemployment and poverty, will inevitably break out in the end in acute social and political tensions.

This is, moreover, the basic reason why the crisis has so drastically affected Latin America, and even some of the socialist countries, which have also been invaded by the transnationalization process, with its sequel of increasing external imbalances and accelerated international private borrowing.²⁵ The rest of the Third World, relatively less infiltrated by the transnational phenomenon, for both economic and cultural reasons, has not experienced to a similar extent either its past dynamic impulse or its present crisis.

In view of the prospects of a gloomy future in the international economy—stagnation, instability, uncertainty and a financial crisis—and the increasing seriousness of the structural problems of the development style both in the industrial countries and in our own, there can be no doubt of the misguided inadequacy of an approach concentrating on overcoming short-term problems by means of adjustment to a temporary recession in the international economy. It is a matter of supreme urgency to reformulate long-term development strategies, together with short- and long-term measures conducive simultaneously to surmounting the difficulties of the recession and unemployment, and directing development towards a more dynamic, equitable and autonomous style, sustainable over the long term. Regional co-operation among the Latin American countries, and between these and the other Third World countries, should play a fundamental role in this new development strategy.

²⁵United Nations Economic Commission for Europe, *The impact of international economic relations on medium- and long-term trends and prospects*, December 1982, pp. 16-25 and 34-37.

VI

Development and reactivation: conditioning factors and options

To serve the debt or not to serve it, that is the question today. All the Latin American governments declare that they want to serve it, but many

have been unable to do so and have left matters in suspense for spells of as long as six months. Nor have they been able to let this situation drag

on for any greater length of time, finding themselves compelled to negotiate an agreement with the International Monetary Fund. This latter is imposing monetarist policies of severe restriction of global demand, designed to generate balance-of-payments surpluses on current account, in exchange for which it facilitates the refinancing of the debt for annual periods, with contributions of its own and from the creditor banks. These agreements have managed to survive in some cases but in others have been unable to withstand internal socio-political pressures, so that this very short-term cycle starts all over again. Thus we have gone on for three years, waiting for Godot to bring a world reactivation that has not yet come, and probably never will.

This reveals a situation in which the costs of serving the debt and of not serving it are alike intolerable in terms of economic and social penury, and of political instability. The transnational banks and the developed countries are prepared to accept temporary moratoria and prefer short-term refinancing, a sign that they fear the consequences of a financial breakdown; but they do not dare to embark upon long-term refinancing or financing, a sign that they place no reliance on the resumption of dynamic international development or on the payment capacity of the debtor countries. Neither alternative would appear to offer a way out. They are only momentary stopgap arrangements, with no prospect ahead but a gradual worsening of the existing situation.

It is essential to avoid catastrophic options, as well as the current deterioration. To that end, an international and national strategy of greater scope and breadth would need to be designed. It would be a question of establishing common basic principles for the creation of a new set of international public institutions to support development and the dynamization and stability of the international economy. Within this framework, each country would be able to negotiate its debt or not, according to its own special circumstances, but in a context that favoured development rather than hampering it. However, the efforts in this direction that have been made year after year have met with no response in the leading industrialized countries.

Furthermore, it is absolutely indispensable that the industrial countries should start out

again on the road of economic expansion and should reopen their economies to international trade on the basis of active industrial and agricultural readjustment policies and the maintenance of policies of full utilization of production capacity. The Bank for International Settlements itself recognizes that room for manoeuvre has been created which makes greater economic activity possible without the risk of unmanageable inflationary pressures, and that restrictive monetarist policies have been carried too far.²⁶ Nevertheless, the analysis presented in the foregoing sections reveals the serious structural and political obstacles to such an advance.

The exorbitant external debt accumulated by most of the Latin American countries is the responsibility of the transnational banks, of the governments of the industrial countries and of the governments and ruling classes of the debtor countries. The servicing of this debt is impossible on a basis of constricting the debtor economies and reducing them to a state of stagnation. That will inevitably lead to further defaulting. Moreover, it is morally unacceptable that the burden of the debt should be laid by monetarist policies, through unemployment and reductions of real wages, on present and future generations of workers who have had nothing to do with it. It is therefore indispensable that the cost of debt servicing should be shared by those responsible for the debt and those that have enjoyed its ephemeral benefits. At the international level, the transnational banks and the governments of the industrial countries must assume their quota of responsibility, facilitating debt servicing by extending maturities to periods of 20 or 30 years, establishing grace periods of at least five years and reducing real interest rates to their historical levels. In addition, these countries must provide new long-term credit at similar rates of interest so that reactivation can be achieved through new development strategies in the debtor economies. Nor are these objectives easy to attain, although implicit or sometimes explicit recognition is beginning to be accorded to the necessity of making some move in this direction.

²⁶Bank for International Settlements, *op. cit.*, pp. 7 and 31.

At the internal level, the more heavily indebted the Latin American countries are, the more need they have to reformulate their development policies, directing them towards three fundamental objectives: employment, export expansion and diversification and the concentration of available resources on meeting the basic needs of the deprived masses. Only a reasonable and sustainable proportion of the foreign exchange obtained from export earnings should be allocated to debt servicing; the rest should be reserved for importing essential goods directly or indirectly for popular consumption and capital accumulation, the latter in its turn to be used exclusively to satisfy popular consumer requirements and accumulation itself. The restriction of non-essential consumer imports would be the contribution of the privileged sectors to the servicing of the external debt for which they were partly responsible.

The adoption of measures favouring an internal reactivation geared to the application of a new development strategy calls for a freedom of manoeuvre in economic policy which the agreements with IMF prevent. As was pointed out at the beginning of the present article, the crucial dilemma facing economic policy at the present time is the question of how to achieve a severe compression of imports which will allow a considerable surplus to be built up on current account for the purpose of serving the external debt. The monetarist prescription, one of the objectives of which is to maintain or obtain external openness, consists in restricting global expenditure on consumption and investment to the point at which demand for imports dwindles sufficiently for this objective to be attained, while it is assumed at the same time that in this way resources will be set free to increase exports. According to our analysis, this approach is mistaken and overburdensome in economic and social terms. Mistaken, because the mobility of the factors of production is low and the short-, medium- and long-term prospects of the international economy are discouraging, so that a rapid and considerable expansion of the volume and value of exports is very unlikely unless as the consequence of a deliberate medium-term policy at the national and international level. Overcostly, in terms of employment and popular consumption, because the import demand function

can be modified by direct acts of intervention to restrict imports through taxes, tariff duties and exchange controls, discriminating between those that are essential and those that are of less critical importance, and thus ensuring a level of investment, production and essential consumption which will minimize the effect of the crisis on employment and the levels of living of the lower-income sectors. While this policy involves a change in relative prices and assuredly a rise in price levels, it does not necessarily imply uncontrollable inflation in so far as idle capacity exists, a tax policy is applied which strictly limits the income and expenditure of the most affluent sectors, and an income policy is adopted which prevents unjustified wage increases.

Economic policy also requires enough freedom of manoeuvre for short-term reactivating measures to form part of a long-term development strategy, oriented towards the objectives indicated above, and founded primarily on those natural, human and infrastructure resources with which these countries are fairly comfortably endowed, and which constitute the only sound and permanent basis for sustained development.

Obviously, the less the negative international context improves and the less support is given to proposals in respect of trade, finance and investment, the more austere these policies will have to be. It is urgently necessary to face up to the possibility that perhaps nothing of any significance may be obtained from the industrialized world or the international institutions and carefully to explore what this would mean in terms of development strategies designed to cope with such a situation.

The lessons taught by history must be learnt. A development of the productive forces which is directly channelled towards the satisfaction of the basic needs of the broad masses and the elimination of dependence cannot be achieved through the massive incorporation of a transnational development style of the individualist-consumist type, making highly intensive use of imported capital, energy and technology. This has not been possible either through the deliberate promotion of such "modernization" (post-Keynesian developmentism), or —much less still— through indiscriminate external openness and privatization (monetarism), even in an exceptionally favourable international context.

The transnational style simply cannot be generalized to the whole of society. In the best instance, the case of developmentism, it benefits a minority more or less sizeable according to the country concerned, but the broad masses linger on in hopeless poverty. In the case of monetarism, insecurity is far greater, development and diversification of the structure of production far less, and external vulnerability and dependence are overwhelming.

It cannot but be recognized that true national and regional development will have to be based primordiallly on transformation of the resources and natural environment in which Latin America is relatively rich, incorporating the efforts of the entire population, together with the adoption of life styles and consumption patterns and of techniques and modes of organization appropriate to this natural and human environment; with very prudent and efficient utilization of the little capital available, especially its imported component; and all this with the explicit aim of producing current goods and services and accumulating the basic social capital required by the majority sectors of the population to improve their levels of living and of productivity. It must not be forgotten that in this respect Latin America has substantially improved its potentialities in recent decades.

Regional co-operation must play a role of the greatest importance in these new internal and international tasks: at the level of North-South negotiations, by persisting in the promotion of a reform of the international system such as that suggested above, and in this context, supporting the renegotiation of the external debt of countries so requiring on the terms indicated, but at the same time exploring the alternatives that might be adopted should this line of action fail. A second aspect of supreme significance is the revitalization of the regional integration institutions, which will facilitate inter-Latin American trade, payments and investment, and to which end greater room for manoeuvre in economic

policy will also be needed. A further crucial aspect is support for all possible forms of integration and co-operation as between the Latin American region and the rest of the Third World. Lastly, it would be impossible to exaggerate the importance of economic and technical co-operation, in every respect, and particularly as regards exchange of experience and information on all topics pertinent to the new national and international development strategies suggested.

From the type of analysis set forth in this article it is obvious that the proposals put forward, both at the domestic and at the international and regional level, imply radical political changes. In the last analysis, it is necessary that the predominance of international trade and financial interests and their respective local transnational bases be replaced by broad national coalitions, representative of a majority of social sectors, which accord priority to the expansion of employment and economic activity and to income distribution, rather than to excessive concern for monetary and financial equilibrium. This happened in many countries after the 1930 crisis, and it may be that the crisis of today will do much to enforce a similar adjustment. But this is not a matter of history repeating itself. There are now new social sectors which did not exist in the past or which were ousted or bypassed by recent development policies. They include, among others, the vast marginal urban sectors and the rural pockets of extreme poverty, the new contingents of young people who have had access to education, the labour force resulting from the incorporation of women into the labour market, the important highly-skilled middle strata, all of which would have to be well represented in the formulation and implementation of the new development strategy that is needed now to overcome the crisis.

This is the most important of the many issues that will have to be very seriously tackled as part of the effort to find new paths to development.

The burden of debt and the crisis: is it time for a unilateral solution?

*Robert Devlin**

Hitherto Latin America's adjustments to debt servicing requirements have taken the form of a contraction of imports and of the economy as a whole, which is producing perverse effects not only in the economic but also in the social and political spheres. In view of these consequences, this process cannot be allowed to continue, and must be replaced by a positive adjustment, based on the strengthening of the region's productive capacity; but this positive adjustment, in turn, will be possible only if appropriate solutions are found for the external debt problem.

In the author's opinion, the "first-best" solution would be a multilateral settlement involving the creditor banks, their governments and the debtor countries; a "public bad" like the external debt problem should be collectively tackled. But a collective solution has a major drawback, inasmuch as the relatively long time that its formulation would take would prevent the debtor countries from obtaining the immediate relief that they need. Accordingly, the author considers two possible "second-best" framework which might serve as the basis for a positive adjustment. The first would consist in a bilateral agreement between the debtor countries and the banks, on much more reasonable terms than have been seen so far, while the second would imply unilateral action on the part of the debtor countries for the purpose of imposing a moratorium or converting the debt into long-term bonds. A unilateral solution may involve a high cost for the debtor countries over the medium and long term, but it could become the only available option if reasonable multilateral or bilateral agreements are not reached and if no sustained recovery of the international economy takes place.

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I

Introduction

The current debt crisis in Latin America clearly requires quick remedial action; without it efficient adjustment will become all but impossible. Measures to alleviate the crisis will have to be adopted at the national, international and regional levels. The time dimension will also have to be taken into account, since in sorting out possible solutions it is important to distinguish between measures that can provide immediate relief and those that are longer-term propositions.

The time factor is critical; in Latin America the debt problem has ceased to be a theoretical issue and is now one of great practical urgency. Latin America needs relief from the crisis today; clearly, for large segments of the Latin American population "there is no tomorrow", and consequently socio-economic tensions in the borrowing countries have reached unprecedented levels. As President Osvaldo Hurtado of Ecuador said in his opening address at the Latin American Economic Conference held in Quito in January 1984, "failure to resolve our countries' economic crisis might generate a new source of serious and destabilizing social and political conflicts which will inevitably upset the precarious world balance".¹

The countries of the region have adopted exceptional measures to achieve the necessary adjustment and meet their commitments with their creditors.² But the adjustment has been undertaken in a recessive world economic environment. At the same time, the unbalanced structure of international financial markets renders it unable to supply adequate amounts of anti-cyclical financing in face of the depressive trends in both trade and private finance. Hence the present adjustment can be described as perverse; it has been achieved in essence via a dramatic compression of imports and unprecedented falls in per capita income.

In at least one important respect the adjustment in Latin America may possibly be complete;

¹See *El Mercurio* (Chile), 13 December 1983, p. B.1.

²For data and analysis respecting this subject, see Enrique Iglesias, "Preliminary overview of the Latin American economy during 1983", in the present issue of the *Review*.

after a 41% reduction in the volume of imported goods in 1982-1983 it is difficult to believe that there is any "fat" left in the region's import structure. For this reason it is of paramount importance that Latin America should avoid further reductions of its purchases abroad.

But the problem does not lie only in calling a halt to the squeezing of vital imports. Latin America's rapid adjustment process has been somewhat artificial; it has been motivated by desperation and has been negative inasmuch as it was accomplished largely at the cost of weakening the region's productive capacity. A positive, efficient adjustment is one that comes about by strengthening productive capacity, and this in turn requires, among other things, economic restructuring, investment, reactivation and greater capacity to import.³

Unfortunately, the weight of Latin America's debt service—even after the first round of reschedulings in 1982-1983—leaves little or no margin for economic growth and the recovery of

international reserve positions. Thus, any type of economic recovery *cum* restructuring would require new and direct remedies to relieve the burden of the debt.

In theory, the best way of tackling the debt crisis is to be found at the international and regional levels, but, owing to political and economic obstacles, such a solution cannot be put into practice promptly enough to provide the immediate relief which Latin America will so urgently need in 1984 and 1985. The borrower countries will therefore have to explore other, second-best solutions.

Two possibilities are considered here. One involves a bilateral arrangement with the banks for a rescheduling on terms consonant with a positive adjustment. The other consists in unilateral action via moratoria or through conversion of the debt into long-term bonds. Each of these alternatives will be analysed so as to evaluate its efficiency in relieving the current burden of the external debt.

II

The first-best solution: a multilateral settlement involving the banks, their governments and debtor countries

1. *The public nature of the debt crisis*

The current debt crisis in Latin America must be viewed as a public problem, or, in technical jargon, as a "public bad". A public bad is one in which a considerable part of the costs of any given situation is borne not by those responsible but by others, i.e., the costs are externalized from the standpoint of the agents producing them. These "negative externalities" are felt both by creditors and by debtors and have important implications for policy.

From the debtor's standpoint, the debt servicing problems of a major borrower—i.e., Mex-

ico in mid-1982—created a panic in financial markets; bankers were quick to perceive Mexico's difficulties as a "Latin American problem", and the consequent general restriction of new loans swiftly pulled almost all the other Latin American debtors into the vortex of the crisis. The importance of this negative externality in the development of the crisis comes more clearly to light when it is recalled that in normal market conditions debtors are invariably allowed to repay loans with the contraction of new ones.⁴ With

³For an analysis of this problem and of a positive adjustment, see A. Gurrieri and P. Sáinz, "Is there a fair and democratic way out of the crisis?", *CEPAL Review* No. 20, August 1983, pp. 127 to 148.

⁴See P. Dhonte, *Clockwork debt*, Lexington, Mass., Lexington Books, 1979, chapter 6; W.A. Lewis, *The evolution of the international economic order*, New Jersey, Princeton University Press, 1977, pp. 65 to 66; and R. Devlin, "External finance and commercial banks. Their role in Latin America's capacity to import between 1951 and 1975", *CEPAL Review* No. 5, first half of 1978, pp. 63 to 97.

the spilling-over of Mexico's negative image of creditworthiness to almost all Latin American countries, these latter lost the very resources (new loans) that had been permitting the smooth servicing of private bank debt for the past 15 years. What is more, until the two big borrowers—Brazil and Mexico—regain their image of creditworthiness, it will be difficult for other debtors in the region to restore normal relations with their creditors, whatever efforts the authorities may make on behalf of adjustment.

From the standpoint of the banks, the negative externalities are equally significant and tend to aggravate the problem. For example, in the present crisis a bank could not extend new credits to a country without knowing whether the other creditors would do the same; otherwise, new loans granted by the bank in question would be applied simply to pay off loans from other institutions that were withdrawing from the market, without much benefit for the borrower and with considerably increased risk for the lending bank. Negative externalities are also present in the so-called "market solution" to the debt problem. Thus, losses on a portfolio that are derived from poor risk assessment by an individual lending institution could very well spark a panic in financial markets, which might have deleterious effects on the viability of other institutions that have not technically erred in the evaluation of their own risks in individual countries. This latter externality was graphically exemplified in the market turmoil of 1974 generated by the bankruptcy of the Bank Herrstatt in Western Germany, an institution of no great importance in the international banking system.

Externalities also abound when one seeks to pinpoint just where the blame, and therefore the costs, should lie. Again, according to the conventional theory which assumes that all decisions by economic actors are made independently, the costs ought to be borne by inefficient lenders, since on the basis of risk assessments they charged premiums to which recourse should be had when the risks materialize. In the real world, however, things are not so simple. As has already been pointed out, externalities will prevent the incidence of losses from being limited to banks which followed poor lending criteria. But what is more, risk evaluation by creditors in the 1970s was not carried out independently. In fact, the govern-

ments of the OECD countries strongly encouraged banks to lend to developing countries, both directly—through exhortations to recycle petrodollars—and indirectly, through: i) an expansionary fiscal and monetary policy which produced excess liquidity in the bank system; ii) the discrepancy between tight regulation of home financial markets and total lack of control of international markets; and iii) failure to support international credit institutions such as the World Bank, IDB and the International Monetary Fund, which could have afforded a more appropriate alternative for recycling petrodollars.

Additional negative externalities were generated by the structure of financial markets itself. The banking system has two tiers: the big international banks that search out markets and evaluate risk, and medium-sized and small banks which provide the bulk of the funds and lend largely on the basis of the assessments made by the big banks. Furthermore, the big international banks themselves are locked into an oligopolistic structure and do not make lending decisions independently of what they expect their competitors will do.

Lastly, when looking at the problem from the debtors' viewpoint, it should be recalled that during the 1970s the Latin American countries borrowed on the basis of their own needs and decisions, but were also encouraged to do so by the arguments in vogue in important international technical circles, to the effect that bank credits were "cheap" in real terms and that foreign indebtedness was "good business".

In short, then, a great "public problem" is posed. In terms both of the causes of the crisis and of its own nature, the banks, their governments and the borrower developing countries face important interdependencies which condition all solutions to the crisis and suggest that a sharing of the costs is appropriate.

2. *A public problem demands a public solution*

A sine qua non for efficient adjustment in Latin America and a lasting resolution of the crisis is a co-ordinated effort on the part of the OECD governments to reactivate their economies and bring interest rates down to historical levels. If Latin America's terms of trade had been similar to those prevailing in 1980 (25% higher), and if at

the same time real interest rates had mirrored those in force at the time when the bulk of the debt was contracted (4 points lower), the region would have at its disposal an additional 25 billion dollars, enough to meet debt service without a dramatic compression of imports and hence of economic growth.⁵ Moreover, this is terrain in which debtors, creditors and their governments have strong common interests: economic recovery would reduce unemployment and social tensions both in the North and in the South, while a fall in interest rates would promote recovery and normal debt payments would be resumed without jeopardizing the profits of the lending institutions.

The absence of a strong and sustained recovery in the OECD countries, debt service will cloud Latin America's growth prospects and, in the context of the short-leash rescheduling policy applied by the private banks,⁶ will continue to take up a disproportionate share of bankers' and developing country authorities' time. Nevertheless, proposals abound to alleviate the problem by joint multilateral public action. A summary of the contents of some of these proposals, based on data prepared by Martine Guerguil is presented in table 1. In addition to these general ideas, specific measures have frequently been suggested in relation to reform of the international financial system. They include the following:⁷

- increasing available long-term financing from the World Bank via a change in the gearing ratio of this institution;
- authorizing direct access by the International Monetary Fund to private capital markets;
- promoting co-financing between the World Bank and private banks;

⁵See Enrique Iglesias, *op. cit.*

⁶In the present crisis the banks have agreed to reschedule only one or two years of maturities with their amortization in only 8 years. The "new" loans intended in practice to refinance part of interest payments have to be negotiated annually. For further background data on the nature of debt renegotiation, see R. Devlin, "Renegotiation of Latin America's debt: an analysis of the monopoly power of private banks", *CEPAL Review* No. 20, August 1983, pp. 101 to 112; and ECLA, *Economic Survey of Latin America, 1982*, Santiago, Chile, United Nations, 1983, Part I.

⁷See also Brandt Commission, *North-South: a program for survival*, Cambridge, Mass., MIT Press, 1980.

- eliminating the concept of graduation for middle-income countries;
- modifying the International Monetary Fund's conditionality; and
- stepping up the importance of programme loans by the World Bank.

At the regional level there also are many proposals for assisting Latin America to overcome the crisis. Among these the following are included:⁸

- freezing the level of protectionism and promoting the expansion of regional trade and preference systems;
- broadening and interconnecting the various interregional financial programmes, such as multilateral payments mechanisms,⁹ schemes for balance-of-payments support,¹⁰ import credit insurance plans,¹¹ and institutions dedicated to the financing of projects;¹²
- enlarging the functions of the Inter-American Development Bank; and
- securing an effective, direct and confidential interchange of information with respect to

⁸For a complete review of this subject see C. Alzamora and E. Iglesias, "Bases for a Latin American response to the international economic crisis", *CEPAL Review* No. 20, August 1983, pp. 17 to 46; and the Latin American Economic Conference, *Declaration of Quito and Plan of Action*, Quito, 9 to 13 January 1984, in the present issue of the *Review*.

⁹Cámara de Compensación Centroamericana, (Central American Clearing-House), Sistema Compensatorio Multilateral de Pagos del Caribe (Caribbean Multilateral Settlement System); and Sistema de Compensación de Saldos y Créditos Recíprocos de ALADI (ALADI, System for Settlement of Reciprocal Balances and Credits).

¹⁰Acuerdo de Santo Domingo (Santo Domingo Agreement); Fondo Centroamericano de Estabilización Monetaria y Fondo para Financiar Saldos Deudores en la Cámara de Compensación Centroamericana (Central American Monetary Stabilization Fund and Fund for Financing Debit Balances in the Central American Clearing-House).

¹¹Latin American Export Bank; Sistema Andino de Financiamiento del Comercio y Asociación Latinoamericana de Organismos de Seguros de Crédito a la Exportación (Andean Trade Financing System and Latin American Association of Export Credit Insurance Agencies).

¹²Central American Bank for Economic Integration; Caribbean Development Bank; Corporación Andina de Fomento (Andean Development Corporation); and Fondo Financiero de la Cuenca del Plata (River Plate Basin Financing Fund).

TABLE 1
SUMMARY OF SELECTED PROPOSALS TO ALLEVIATE THE DEBT CRISIS

Government of Mexico ^a	A new window in the International Monetary Fund that would provide lightly conditional finance to countries facing interest payments in excess of 2% real. This represents an expansion of the concept underlying the Fund's current Compensatory Finance Facility.
Kenen ^b	In this scheme private banks would trade their LDC loans for 10-15 year bonds to be issued by a newly-created OECD-supported international organization. The loans would be traded at a 10% discount and the devaluation of the banks' assets would allow the new institution to reschedule LDC loans on more favourable terms.
Weinert ^c	Private banks would trade their LDC loans for bonds to be issued by the World Bank and the Bank in turn would reschedule the loans on better terms. The trade would be at face value, but the bonds would carry a reduced interest rate; this would distribute losses over a longer period than would be the case under the Kenen plan, with its immediate 10% devaluation of assets.
Zombanakis ^d	The IMF would extend its adjustment programme to 10-15 years. The private banks would then reschedule their loans in a way compatible with the longer adjustment programme and in turn would receive an International Monetary Fund Guarantee for the later maturities of the rescheduling.
Bolin and Del Canto ^e	It is proposed that a new public institution be established to provide loans that bridge the gap between the short-term maturities of private banks and the longer-term maturities of multilateral lenders. A bigger financing role is also envisaged for OECD export credit agencies. As for the fluctuation in interest rates, it is suggested that the World Bank provide residual finance that would effectively guarantee a maximum interest rate for debtor countries.
Lever ^f	On the basis of an evaluation of what constitutes a reasonable current account deficit, countries should have made available to them a maximum amount of finance. This evaluation will be made in conjunction with the International Monetary Fund. Bank loans in this programme also should enjoy OECD government guarantees.
Avramovic ^g Massad ^h	Both propose increases in LDC liquidity via new issues of Special Drawing Rights (SDRs).

Source: Data from M. Guerguil, "La crisis financiera internacional: diagnósticos y prescripciones", ECLA, Economic Development Division, mimeographed text, November 1983.

^a "Facilidad para el financiamiento del déficit de balanza de pagos provocado por las altas tasas de interés", mimeographed text, August 1983.

^b P. Kenen, "A bail-out for the banks", *New York Times*, 6 March 1983.

^c R. Weinert, "Banks and bankruptcy", *Foreign Policy*, No. 52, Spring 1983, pp. 138-149.

^d M. Zombanakis, "The international debt threat: A way to avoid a crash", *The Economist*, 30 April 1983, pp. 11-14.

^e W. Bolin and J. Del Canto, "LDC debt: beyond crisis management", *Foreign Affairs*, Summer 1983, Vol. 61, No. 5, pp. 1099-1112.

^f H. Lever, "The international debt threat: A concerted way out", *The Economist*, 9 July 1983, pp. 18-20.

^g D. Avramovic, "The debt problem of developing countries at end-1982", *Aussenwirtschaft*, March 1983, pp. 65-86.

^h C. Massad, "The external debt and the financial problems of Latin America", *CEPAL Review*, No. 20, August 1983, pp. 149-163.

the terms on which the said countries' external debt is refinanced and rescheduled.¹³

In spirit and intent, all these proposals are along the right lines; public problems do indeed

demand public solutions. But their efficacy is handicapped by the aforementioned time element: most of the proposals are at best medium-term propositions. It must be recalled that an economic system based on private markets tends to underproduce public solutions (i.e., public "goods"). Furthermore, pressures for a public solution are usually minimal until the external-

¹³See Alzamora and Iglesias, *op. cit.*; and Latin American Economic Conference, *op. cit.*

ized costs of a problem are internalized by the system's major economic agents. So far, the ability of the banks and their governments to reschedule debts on terms highly favourable to themselves has enabled the North to keep the costs of the debt crisis externalized; in other words, the debtor countries have had to bear them while any benefits have largely accrued to the creditors.¹⁴ Another disincentive to action is the opinion held by some OECD governments that the crisis has already been resolved by the first round of reschedulings and by the recovery of the United States economy. Only if the developing countries begin to enter into non-negotiated moratoria will the cost become a reality in the North, and it would be then that OECD governments could be

expected to take rapid and concerted action aimed at achieving public solutions. The moral of this story is simple: modern market economies tend to privatize profits and socialize losses; until the threat of losses is felt to be real, public solutions are unlikely to materialize on any significant scale.¹⁵

Solutions at the regional level also encounter formidable obstacles. The main difference, however, is that the costs of the crisis have already been internalized by the region's most important economic actors, thus giving greater impetus to regional solutions. But in any event, time remains an important factor and regional agreements cannot be expected to provide immediate relief from the debt crisis.

III

The second-best solution: Bilateral or unilateral action?

A public solution to the crisis, while entirely desirable, does not seem feasible in the near future. This reduces the field of action to the national level, where a response could be: i) a bilateral agreement between the borrowing country and its creditor banks involving a rescheduling of the debt compatible with a positive adjustment process; or ii) unilateral action taken by the borrower to relieve the burden of debt service. Which of the two solutions is the second-best for the debtor country will depend upon the hypotheses adopted with respect to the world economy, the characteristics of the debt problem and the current disposition of the banks.

Latin America must reduce its external vulnerability by restructuring its relations with foreign creditors and adopting new development and indebtedness strategies.¹⁶ Nevertheless, the region presumably will seek and need future ex-

ternal financing. The merit of a bilateral settlement involving a rescheduling on terms consonant with a positive adjustment process is that it is less conflictive than unilateral action and thereby serious negative repercussions on future access to credit may be avoided. But a bilateral rescheduling solution—even if on terms favourable to the region—is not sufficient to secure future financing: if the world economy does not enter upon a sustained expansion and if interest rates do not come down to normal levels, there will be little chance of a restoration of autonomous payment capacity in most countries, no matter how hard they try to adjust. Thus, servicing problems on past debt accumulation will recur, making net resource transfers from the banks in the future very problematical indeed. This latter situation, in turn, would greatly reduce the opportunity cost of unilaterally imposing on creditors a type

¹⁴A recent study by A. Fishlow points out that the nine biggest United States banks obtained excess profits totalling between US\$ 70 and US\$ 130 million in 1983, as a result of the renegotiations with the Third World. See *El Mercurio* (Chile), 16 January 1984, p. B.1.

¹⁵For example, the current United States administration for a long time opposed any expansion of the Interna-

tional Monetary Fund quotas. Only when Mexico was on the verge of financial collapse (and hence so were some United States banks) did it support an enhancement of the Fund's role in Third World financing.

¹⁶See the article by Gurrieri and Sáinz, *op. cit.*, which outlines some relevant ideas.

of very long-term development-oriented repayment scheme that probably would be impossible to put into effect in a framework of bilateral negotiations.

There are two other situations in which unilateral action might prove to be the preferred solution. The first, when there is unexpected intransigence on the part of private creditors. As pointed out elsewhere,¹⁷ the extremely burdensome terms imposed by the banks in the 1982-1983 reschedulings generate what are tantamount to monopoly rents obtained in a non-competitive capital market thanks to strong bargaining power that the banks acquire by negotiating *en bloc* with the borrower, through the mechanism of the banking advisory committee. This being so, the most appropriate frame of reference for the debtors' action *vis-à-vis* the creditors would be a bilateral monopoly with the two countries negotiating the sharing-out of the losses on a very weak bank portfolio. If countries took this situation into account—instead of behaving as if they were rivals—both theory and practice suggest that Latin America could in all likelihood make better use of its bargaining power to strike rescheduling terms compatible with a positive adjustment process—all this with no very serious negative repercussions on access to credit. Nevertheless, should the banks, for whatever reason, prove unbending in their bargaining stance, a country which needs relief now might then have no alternative but to take unilateral action to reduce the debt burden and stimulate its economic growth.

The second situation involves countries which face severe internal constraints on raising repayment capacity. These countries are, for all practical purposes, insolvent, and even a recovery in their terms of trade would be insufficient to restore repayment capacity. Once again the future prospects for positive net transfers from the banks would be meagre, possibly making the cost of imposing a very long-term repayment scheme on the banks less prohibitive.

1. The bilateral approach

a) The general strategy

As a point of departure, the general hypothesis adopted is that to relieve current political tensions and to protect the stability of the international financial system, not only must Latin America's per capita income not fall farther, but it must now rise, and begin to recoup the severe losses incurred during 1981-1983.¹⁸ It would be eminently reasonable to set a minimum growth target of 5% per annum for 1984-1986. Assuming a rather conservative marginal import coefficient for Latin America of 1.3 (that reigning in 1967-1973), imports would have to expand at the very least by 7% per annum in real terms. International reserves would also have to rebound from today's critically low levels.

The options open can be depicted in the following simple external resource equation:

$$X - M - R = L + L_a - iD - A$$

- X = exports
- M = imports
- L_a = arrears on debt service
- R = change in reserves
- L = new loans
- i = average interest rate
- D = external debt
- iD = interest payments
- A = amortization payments

Let it be assumed that imports (M) and reserves (R) must rise. This can be achieved in a situation of external resource balance by a compensatory expansion of exports (X); or by some combination of increased new loans, accumulation of debt service arrears, lower interest rates on the debt outstanding or rescheduling of amortization (A) and/or interest payments (iD) on the debt in question. In the current world economy where export demand is sluggish and protectionism is rampant, it is fair to assume that export growth will be problematical and relatively exogenous to the region's internal efforts. In present conditions it will also be difficult to

¹⁷See R. Devlin, "Renegotiation of Latin America's debt...", *op. cit.*

¹⁸See E. Iglesias, *op. cit.*

obtain new autonomous loans and the prospects for lower interest rates are not very promising in the immediate future. Thus, in the near future a rise in imports and reserve cover will probably have to be achieved via arrears or reschedulings.

Bankers have displayed great concern about avoiding accounting losses on their portfolio. This is reflected in their reluctance to declare defaults and their willingness to reschedule amortization payments and extend loans to facilitate payments of interest, thereby disguising from bank supervisors the non-performing nature of their assets.¹⁹ Unilateral action on the part of borrowers involving long-term repayment of the debt would expose this tactic as it would saddle the banks with the book losses that they so desperately try to avoid. Latin America's bargaining strength lies in exploiting this preference and allowing the banks to go on in the same way, always providing they agree to rescheduling on terms that facilitate a positive adjustment in Latin America. The time may be ripe for putting such a strategy to practice, inasmuch as increasing pressure at the international level, in certain influential circles in the banks' own countries,²⁰ and consternation in the borrower countries,

¹⁹Interest rates are so high that the burden of interest payments alone would suffice to create a financial crisis. For example, in 1982-1983 over 35% of the value of the region's exports was absorbed by payments under this head, and in some countries the coefficient reached 50% or more (see E. Iglesias, *op. cit.*, table 14). In these circumstances, the mere rescheduling of amortization payments—the traditional relief mechanism—would not have been enough to restore debt servicing capacity. However, by rescheduling interest payments, the banks incur the risk that their government bank authorities may classify the loans as non-performing assets and cause a write off of part of the value of their portfolio. Accordingly, the banks resort to the indirect expedient of refinancing interest payments through new loans, thereby evading losses (see R. Devlin, "Renegotiation of Latin America's debt...", *op. cit.*).

²⁰For example, in a new Act of the United States Congress respecting an increase in that country's IMF quota, it is proposed that under economic adjustment programmes short-term debts at high rates of interest should be converted into long-term debts, at rates appreciably lower than those prevailing in the restructuring of bank debts negotiated between August 1982 and August 1983, for countries receiving help from the Fund intended for economic adjustment programmes with a view to minimizing the burden of adjustment for the debtor country. See Organization of American States, "Extracto de la Ley Pública 98-181 del Congreso de los Estados Unidos titulada: Ley de Viviendas Nacionales y de Re-

have apparently helped to predispose the banks to soften repayment terms (and reduce monopoly rents) in the second round of reschedulings for Mexico and Brazil, in 1984.²¹ Moreover, there may be room for nudging the banks farther on this point.²²

The basic premise for a bilateral solution is that the costs for the banks of a settlement favourable to debtors' interest should be obscured; i.e., attempts should be made to avoid accounting losses for the banks, even while imposing real losses upon them. The reasons for this strategy will become clearer in the subsequent analysis of unilateral action; suffice it to say now that the goal of such a strategy is to preserve prospects for future financing from private creditors.

How to disguise or obscure the losses for the banks? The answer is to push out all payments into the future without hardening lending terms—indeed, the terms must be softened. The banks make sacrifices in two respects. First, in rescheduling loans on relatively less favourable terms, they become locked into assets which offer less returns than would be available from alternative opportunities. Secondly, by softening terms in relation to the original conditions of the loan, the present value of the future income stream is reduced. Even though the banks are worse off than before, they need not suffer accounting losses if the revised terms of credit meet the *minimum* requirements for the transaction to be successfully disguised as commercial. The reschedulings must have a "commercial flavour" in order

cuperación Internacional y Estabilidad Financiera", OEA/SER H/XIV/CEFYC/4, 10 January 1984.

²¹Brazil is known to have obtained a softening of debt terms: provisional data suggest that the renegotiation for 1984 implies a reduction of the spread over LIBOR from 2.5% to 2%, and of commissions from 1.5% to 1.0%. Mexico, for its part, will pay 1.5% over LIBOR and a commission of 0.625% on its "new" loan of US\$ 3.8 billion; these figures are lower than the 2.25% over LIBOR and commissions of 1.25% settled for its additional loans in 1983. A 10-year maturity will be granted, with a grace period of 6 years, as compared with the 6-year maturity (3 grace years) for the new loan in the year before.

²²The fact that Brazil managed to obtain softened credit terms at the very time of an aggravation of its crisis and an accumulation of debt service arrears to the tune of US\$ 3 billion is an empirical indication of the monopoly rents tapped by the banks in the first round of reschedulings.

that they may fall into a "gray area" that will give the regulatory banking authorities of the OECD a legitimate way to turn a blind eye rather than classifying the loans as non-performing assets. And this, in all likelihood, is what they will do, if the alternative is an international banking crisis.

b) *The terms of an agreement*

Assuming that whatever world economic upturn that may materialize will have more gradual effects on Latin America than has normally been the case in recoveries since the Second World War, and assuming likewise that in the near future nominal and real interest rates will remain exceptionally high, rough and ready estimates would suggest that for Latin America to grow at an average annual rate of 5% in the triennium 1984-1986, and begin a modest recuperation of its international reserves, it will need to reschedule all its amortization payments, and on average have 80% of its interest payments rescheduled or refinanced.

In this light, bankers and debtor countries should devise a rescheduling package that at a minimum would cover the triennium 1984-1986, although ideally the two should pursue a restructuring of the entire stock of debt owed to the banks. It is absolutely essential to eliminate the traumatic yearly rescheduling exercises which waste so much of the government authorities' and bankers' time, create uncertainties, and inhibit restoration of a normal credit environment for Latin America. Thus, a debt relief package providing a definitive once-and-for-all arrangement for upcoming payments is called for. Incidentally, the new debt relief package could coincide with the International Monetary Fund's extended adjustment programmes, thus affording bankers the backing of the Fund's conditionality.

Amortization of debt, however, is really not the problem, as bankers have shown a disposition to reschedule. The real bottleneck to recovery in Latin America, and where the focus of attention must lie, is the payment of interest. The banks—under pressure from IMF—have been refinancing about 50% of interest payments. Even so, the countries' gross domestic product continues to fall, inasmuch as large foreign trade surpluses have to be generated (in the face of

external constraints on export performance) to cover the outstanding balance of interest payments, which is very large on account of the exceptionally high level reached by nominal interest rates. Accordingly, *ceteris paribus*, formulas must be found for still further reducing these interest payments on a cash flow basis.

Therefore, as an integral part of the rescheduling agreement creditors should provide an *ex ante* guarantee of 80% refinancing of interest payments²³ during the period 1984-1986. This could very well involve a front loaded sliding scale, e.g., 90% in 1984; 80% in 1985, and 70% in 1986, to take into account the possibility of a gradual improvement in the world economy and somewhat lower international interest rates. A historically useful instrument called a "bisque clause" also could be inserted into the agreement to provide for less automatic refinancing of interest payments in the event of a dramatic and unforeseen change for the better in the world economic situation and/or a plummeting of interest rates.²⁴

The rescheduled amortization payments and refinanced interest should bear a repayment schedule that pushes against the limit of what could be considered a commercial transaction. Evidently this should involve maturities of at least 10 to 12 years (with a 6-year grace period), since a 10-year amortization period (with 6 grace years) was agreed to in the second round of the Mexican rescheduling and 12 years was awarded to Nicaragua in 1980; all this with no negative repercussions or sanctions on the part of the creditors' local banking authorities. But an even more acceptable goal would be 15 years (with a 6-year grace period), a maturity plan that banks extended with some frequency on loans during

²³This guarantee, of course, would be tied to compliance with IMF adjustment targets, which might be less severe, since countries would have more financing at their disposal as a result of the greater rollover of interest payments.

²⁴Bisque clauses were employed by the United States Government in the case of some of its post-war loans. For example, in 1945 the government made a US\$ 4-billion loan to the United Kingdom, to be repaid over 50 years, in which a bisque clause allowed the repayment schedule to adjust to the economic conditions of the borrower. See G. Abbott, "The case for cancellation", *Inter-Economics*, No. 7, July 1975, pp. 217-221.

the 1970s.²⁵ On the other hand, a 20-year amortization period, repeatedly proposed in Latin American forums, risks crossing the threshold of tolerance of local banking supervisors, since it represents a period that is traditionally beyond the bankers' business horizon and enters the terrain of institutional investors. While OECD government guarantees on the tailend maturities could obviate this drawback, such a scheme would overstep the constraints—self-imposed here—of a bilateral arrangement.

The margins over LIBOR—another of the elements determining the negotiated cost of credit—that would be charged on rescheduled debt and refinanced interest payments, would have to be as low as possible, yet satisfy the requirements of commercial practice. This would involve spreads well below those charged in the first round of 1982-1983 reschedulings,²⁶ and in most cases below those originally negotiated. The limits to be defined here are part of the vagaries of the "cat and mouse" game characteristic of the negotiating framework of a bilateral monopoly. But even within the banking community itself there have appeared proposals to the effect that while the banks could not accept a spread below their (marginal) cost of funds (which is LIBOR), a 1% spread would be feasible as a temporary measure.²⁷ An even better arrangement, however, would be either a 1% spread, or the margin originally negotiated on the debt to be rescheduled or refinanced, whichever were lower. This would allow countries like Mexico,

with traditionally excellent images of creditworthiness, to approach their normal negotiated cost of credit (which is below 1%); most of the other countries, for their part, would enjoy a spread somewhat lower than that originally agreed upon. There is, moreover, a precedent for this inasmuch as in the bank restructuring of United States and Canadian corporate debts special "soft" market rates of interest were applied. Indeed, eminent experts in the OECD area have recommended that this strategy for problem debtors in domestic markets be extended to the international plane.²⁸

As for commissions, in principle they should not be charged in the rescheduling/refinancing package, since this is a case of administration of existing debt on which commissions were paid at the time of obtaining the loans. However, in keeping with normal banking practices there is no reason why payment of commissions could not be agreed to in exchange for an interest spread somewhat lower than that proposed here.

Lastly there is now a consensus in world forums to the effect that the cost imposed by the private banks in the first round of debt renegotiations was unduly high. Debtors could demand an adjustment of this cost through new agreements under which credit terms may be settled on more liberal principles along the lines suggested here.

c) *Co-operation among debtor countries*

Achieving the above rescheduling conditions is a question of bargaining power. As noted earlier, the banks' ability to impose conditions may have been somewhat eroded by negative reactions in certain influential circles of the centre and the periphery against the overly burdensome charges on reschedulings.

The Latin American countries could bring additional pressure to bear by two means. The simplest and least controversial measure would be an exchange of information among the countries concerning the bargaining tactics of the banks. This idea, which was proposed by the Executive Secretaries of ECLA and SELA in a Plan

²⁵Such 15-year loans were common in the early phase of the expansion of bankers' activities in developing countries, that is, in the first half of the 1970s. See World Bank, *Borrowing in International Capital Markets*, Supplement EC 181, Washington, D.C., August 1976, annexes.

²⁶I.e., between 2.25% and 2.50% over LIBOR. See R. Devlin, "Renegotiation of Latin America's debt...", *op. cit.*, table 3.

²⁷See P.P. Kuczynski, "Latin American debt: act two", *Foreign Affairs*, Autumn 1983, Vol. 62, No. 1, pp. 118-138. Moreover, Robert Roosa—financial expert, partner in the Brown Brothers Harriman investment bank, and formerly a high official of the United States Treasury—has declared that interest rates for reschedulings ought to approximate the LIBOR and that in future IMF must concern itself not only with the granting of new loans by the banks but also with their terms. See "Robert Roosa delivers Struc Memorial Lecture emphasizing a broader role for the Fund & Bank", *IMF Survey*, 15 December 1983, p. 374.

²⁸See R. Roosa, *op. cit.*, and R. Weinert, "Banks and Bankruptcy", *op. cit.*, pp. 138-149.

of Action presented to President Hurtado of Ecuador in 1983,²⁹ would help to counterbalance the advantages enjoyed by the banks which exchange information through the banking committee as well as through a new institute recently organized by them in Washington, D.C. In the first round of reschedulings, borrowing countries negotiated in relative secrecy, to little advantage, as witnessed by the fact that the terms of the agreements are practically identical for all the different countries. The establishment of a credit information system in an existing regional institution might prove to be an easy way to enhance the Latin American countries' bargaining power.

A second measure, considerably more complicated and controversial, implies direct co-operation among borrowers in negotiating with the private banks. Even if a borrower recognizes that the correct negotiating framework is that of a bilateral monopoly, for diverse reasons there could be considerable asymmetry in the bargaining power of the parties. Likewise, for some borrowers, particularly those with a politically less than favourable international image, the cost of being the first to break new ground in the pattern of reschedulings might be very high as banks might retaliate harshly, just to set an example and discourage similar action by other countries. Joint action would help to obviate these drawbacks. While the proposals for a regional cartel would almost certainly be impracticable, because of the cumbersome administration it would involve and the reluctance of most countries to participate, there is no reason why one or several smaller groups of countries with similar negotiating interest should not voluntarily join forces *ad hoc* in order to pressure the banks into a more rational relief package. While it is true that each country's circumstances are different, it is no less certain that all have a common interest in better terms for the restructuring of debt.

d) *Stabilization of interest payments*

The average 80% refinancing of interest payments means that cash payments to the banks would represent a low percentage of debt out-

standing. This is quite reasonable, inasmuch as even cash payments equivalent to a "normal" real interest rate of 2% would be very burdensome in the current abnormal world economic conditions. For example, in the case of Brazil, after refinancing of interest payments, the balance of interest paid on a cash basis in 1983 amounted to roughly 2% of its bank debt in real terms. To make this payment, the per capita product had to fall by 7%. Thus, in the short-term interest payments in cash must be well below 2% real. Nevertheless, as a proposal for the future, if and when the world economy returns to some degree of stability, it would be constructive to establish a real rate of interest ceiling around a "normal" rate—say 2% real—on bank loans, with any balance over that being capitalized with interest by creditors.³⁰ This would provide debtors with a measure of stability in interest payments. Moreover, the international financial markets would then have an "automatic" mechanism to roll over interest payments and thereby avert the trauma and the uncertainties that excessively high interest rates generate in financial markets via their negative and transitory effects on the borrowers' debt servicing capacity.

2. *The unilateral approach*

Mention has been made of three situations in which a bilateral rescheduling agreement on quasi-commercial terms might not prove to be the preferred solution for the borrower: 1) a rigid bargaining stance on the part of the banks that unduly delayed implementation of a new rescheduling framework compatible with positive adjustment; 2) failure of world economic recovery and persistence of high interest rates; and 3) a very serious structural disequilibrium within a country.

The first situation is more or less self-explanatory. The second is not conducive to a bilateral commercial agreement, since even if the countries could negotiate a margin as low as 1% on a rescheduling, this would imply an effective interest rate of 11%, assuming a LIBOR of around

²⁹See Alzamora and Iglesias, *op. cit.*

³⁰In the 1960s the banks often established ceiling and floor rates for loans with a floating rate of interest; but no capitalization mechanism existed and the system therefore lost its attraction for the banks.

10%. If 80% of these payments were refinanced, debt would grow by at least 9% per annum. This growth of debt would only make economic sense if Latin American exports were to recover their dynamism over the period 1984-1986. Without renewed dynamic export growth—which would necessitate strong economic expansion in the OECD area—or a sharp drop in interest rates (which would reduce refinancing requirements and therefore debt expansion), Latin America would just sink deeper and deeper into the quagmire of having to reschedule on commercial terms. As regards the third situation, a country facing severe internal supply constraints might also find difficulty in meeting the commitments of a commercial rescheduling, since its capacity to export—and hence its opportunity to take advantage of better terms of trade—would be limited. In these circumstances, it would be worthwhile to explore the possibilities of imposing a non-commercial repayment programme.

The two unilateral solutions most discussed in Latin America are a moratorium³¹ and unilateral conversion of debt into long-term bonds.³² The two solutions are very similar, since the proponents of a moratorium are not suggesting repudiation of the debt, but rather a temporary halt in current commercial repayment schedules and their replacement by very long-term debt service programmes. In this context, too, there would be no need to submit to an International Monetary Fund adjustment programme.

While the precise terms of repayment differ among the various proponents of these schemes, they are much alike in principle. Payment on interest and principal would be halted for a period of 2 to 5 years, the principal being reimbursed over 20 to 30 years. Interest rate proposals vary from less than market rates to 2% real.³³

The immediate value of these plans is that they would: 1) provide considerable and instant

relief from the burden of debt; 2) offer a repayment stream that is a good deal more compatible with development than any commercial scheme that would conceivably be acceptable to the banks; and 3) eliminate the need for endless multiple reschedulings with their ensuing waste of time and resources.³⁴ In other words, they would extricate the countries once and for all from the so-called debt trap. Also, faced with any of the three above-mentioned conditions, such plans would allow a borrower to take the inevitable step—free itself from an insupportable debt service burden—without being accused of repudiation of foreign obligations.

Another potential benefit, often cited by proponents of unilateral debt conversions into bonds, is that such an emission would help to create a secondary market for Latin America debt paper. On the one hand, this would allow the banks to rid themselves of unwanted assets by selling them off in such a market. On the other hand, countries would gain valuable information on their creditworthiness via the fluctuations of the market value of their paper. Likewise, any sharp devaluation of assets in the market could provide potential debt relief via an opportunity to repurchase the obligations at lower values.³⁵

What are the costs? There may be some of importance.

The first cost is related to what would happen to the banks and future access to credit. A generalized debt conversion into bonds, or a moratorium, would force the banks to write off a considerable part of the value of their loans to developing countries, much as would happen in a competitive market solution. This would imply heavy accounting losses for the banks. Moreover, the losses will be borne to a disproportionate extent by the big United States lending institutions, which are the least diversified with respect to Latin American debt.³⁶

³¹The best-known proponent of this solution is Celso Furtado, of Brazil.

³²See R. Dornbusch, "A stabilization program for Brazil", Cambridge, Mass., mimeographed text, 1983, and Conferencia Económica Latinoamericana, *op. cit.*

³³What has not been mentioned, and would be even more appropriate, is a real interest rate calculated on the basis not of international inflation, but of the borrower's terms of trade.

³⁴See M. Guerguil, "Conversión de la deuda en bonos: una tentativa de evaluación", ECLA, Economic Development Division, mimeographed text, December 1983.

³⁵*Ibid.* This relief is only potential because the burden also would depend on the value of the means of payment (foreign exchange) and hence the terms of trade.

³⁶See D. Wyss and R. Napier, "The world debt crisis and the U.S. economy", *Data Resources U.S. Review*, September 1983, pp. 1.24-1.29.

These losses would probably prejudice future access to credit. On the one hand, they would represent a serious threat to the solvency of many of the world's largest financial institutions. These are unlikely to go bankrupt, thanks to the quick intervention of central banks, but uncertainties would paralyse all credit markets and spark a rapid major rise in interest rates from their already excessively high levels. This in turn could cause the debt crisis to spread to markets in the North, stifling economic recovery in the OECD area,³⁷ and hence make the creditworthiness of Latin America even more problematical.

On the other hand, creditors have long memories with regard to accounting losses, as witnessed by the reluctance of institutional investors to reenter the developing countries' bond market after their disastrous experience in the 1930s. These negative repercussions are intensified in a modern banking system. First, there are the aforementioned negative externalities that make the crisis permeate the entire financial network. Secondly, the losses would be disproportionately concentrated in the big banks, which are the most internationally-oriented and to a large extent are responsible for mobilizing credit from the hundreds of small- and medium-sized domestically-oriented banks that provide the bulk of loanable funds in the market. Furthermore, the big banks also have some control over bond markets since they frequently underwrite such instruments. In other words, if the big banks were estranged from Latin America, credit would become extremely restricted³⁸ even if

there were an objective improvement of creditworthiness in Latin America. It is precisely for these reasons that a unilateral settlement of the debt crisis would seem attractive only under conditions in which the alternative —bilateral reschedulings on fair terms— was not economically viable.

As for the benefits of developing a secondary market, this possibility too is problematical. First, there is the question of who would purchase the paper.³⁹ Secondly, a unilateral bond emission by one or several small borrowers would involve values that would be too low to support an efficient secondary market. Although such action by a big borrower and/or many smaller borrowers could create values sufficient to form a secondary market, the losses imposed on the banking system might be so large and immediate that in all likelihood primary and secondary markets would be in disarray for a considerable length of time, adversely affecting both access to new credits and trading of old debt.

Finally, not all countries are in a position to initiate a unilateral settlement. Just as in a bilateral settlement, there might be very high costs for an innovator in the form of retaliation from the banks and their governments. Probably, therefore, the unilateral option could be adopted only by i) a very large borrower which enjoys a "balance of terror" with the banks; ii) a country of considerable geopolitical significance to the North; and/or iii) a group of borrowing countries acting in conjunction. Once a precedent was set without retaliation, other countries could more easily follow similar repayment programmes.

IV

Final considerations

The conditions necessary for a unilateral approach to the debt problem are, in reality, fairly straightforward. Given the high degree of

pessimism reigning in certain circles as to the possibility of sustained recovery in the OECD

³⁷*Ibid.*

³⁸There is, of course, the theoretical possibility of emitting bonds on debts to banks that find such an arrangement acceptable, such as smaller United States banks and European institutions which have had less to do with Latin Amer-

ica. But this theoretical possibility is stifled by the legal requirements of cross-default clauses which in practice leave all banks in the same boat. Moreover, this boat is piloted by the big United States institutions.

³⁹Sée Guerguil, "Conversión de la deuda ...", *op.cit.*

area,⁴⁰ predictions of persistently high interest rates, and the severe economic deterioration in most Latin American countries, a unilateral solution may be tempting for a number of borrowers. Nevertheless, caution should be counselled. It would be premature to forecast the future direction of the world economy, and present difficulties within Latin America should not be tackled with short-sighted strategies. It might prove wise to probe the banks respecting their attitude towards a better rescheduling package along the lines suggested here. If they accept, countries would lose very little by signing such an agreement. Should the world economy in fact move in

a positive direction over 1984-1986, repayment capacity would be restored in most countries, and they could then pursue alternative, less heavily indebted routes to development without need for rescheduling. Furthermore, new credit, albeit not in the unusual volume of the 1970s, should be available if required. But if the OECD economies were to show definite signs to a renewed slump over 1984-1986, the borrowers would have a fairly clear picture of a difficult future ahead, making unilateral action—in the absence of an international public solution—the only prudent road to relief and future development. Meanwhile, the cost of having waited to implement unilateral action in the form of a larger debt would lose some of its relevance because values would be eroded by the softer repayment terms imposed upon the banks.

⁴⁰See O. Sunkel, "Past, present and future of the international economic crisis", in this same issue of the *Review*.

Energy and the prevailing model of agricultural technology in Latin America

*Nicolo Gligo**

In this article the author discusses some important issues related to the use of energy in Latin American agricultural production.

The increases made in the region's agricultural output in recent decades have been based on the intensified exploitation of areas which are already in use rather than on the use of new land, and in general this intensification has conformed to the pattern of agricultural development followed in the United States. Due to the large amount of energy inputs required for this type of development, however, it cannot be widely applied in other countries, and it has therefore become imperative to seek other approaches to agricultural expansion in Latin America.

Having stated the central problem in these terms, the author explores the possible technological options which could be applied; to this end, he first analyses the energy-related aspects of technological inputs, the energy productivity of the labour force and the environmental energy endowment. The possible technological options will depend upon the extent of intervention which has taken place in each climatic zone. Greater difficulties are involved in changing over those areas in which intervention has been more intensive, although a great deal can still be done to re-orient their use of energy; in areas where there has been less intervention, such as the humid tropics, exploitation could be based from the outset on approaches which are in keeping with the needs and potentials of the region.

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I

Introduction

The current debate on the energy problem in the rural sector tends to focus on an analysis of the possibilities for producing energy from the alternative sources available in this sector. There has been interest in research on the bio-energy which can be obtained from crops, the exploitation of forests and the processing of wastes. Efforts have also been directed towards using the energy produced by renewable or inexhaustible resources such as wind power, solar energy and water power.¹

While it is of course very important to explore these possibilities, there is another facet of the energy problem relating to the situation and projections of agricultural development in Latin America which, because of its complexity, has hitherto been dealt with in a piecemeal and limited fashion; this aspect is the energy use in agricultural production in the ecosystems of Latin America. If we knew how the ecosystems are being artificialized,² how their environment-

¹An extensive body of literature exists on the subject. See, *inter alia*: FAO, *Energía para la agricultura mundial* (by B. A. Stout), Rome, 1980, 303 pp.; World Bank, *Alcohol production from biomass in the developing countries*, Washington, D.C., September 1980, 69 pp.; A Makhijani and Alan Poole, *Energy and agriculture in the Third World*, Ballinger Publishing Co., Cambridge, Massachusetts, 1975, 168 pp.; Fernando Homem de Melo, *A agricultura nos anos 80. Perspectivas e conflitos entre objetivos de políticas*, University of São Paulo, School of Economics and Administration, IPEA, March 1980, 61 pp.; P.H. Abelson, "Energy and chemicals from biomass", *Science*, Vol. 213, No. 4508, August 1981; D.E. Earl, *Forest, energy and economic development*, Clarendon Press, Oxford, 1975; EMBRAPA, *Programa nacional de pesquisa en energia*, Brazil, 1980, 27 pp.; UNEP, "New and renewable sources of energy. Information sources", INFOTERRA, Nairobi, Kenya, 1981, 320 pp.; Matthew S. Gamser, "The forest resources and rural energy development", *World Development*, Oxford, United Kingdom, Vol. 8, No. 10, 1980, pp. 769-780; United Nations, Report of the United Nations Conference on New and Renewable Energy Sources (A/CONF. 110/11), New York, 1981; UNDP/Latin American Energy Organization (OLADE), "Plan de acción latinoamericano para el desarrollo de la energía no convencional", Latin American Seminar on Unconventional Energy Policies, Rio de Janeiro, November 1979; UNDP, *El PNUD y la energía, exploración, conservación, innovación*, Appraisal No.5, May 1981; UNEP/UNDP/OLADE, *Energy alternatives in Latin America*, Quito, October 1979; OLADE, *Programa latinoamericano de cooperación energética*, OLADE Document Series No. 15, Quito, November 1981.

²"Artificialization" of the ecosystem means the modification of its natural state by activities intended to produce

al endowments³ and features are being managed, and what the specific characteristics of energy-related behaviour are, we would then have a better basis for introducing technological policies aimed at bringing new areas into use and achieving a more intensive utilization of renewable natural resources. Two great challenges facing the region are to incorporate vast expanses of tropical forests, many of them virgin, while also attempting to modify the harmful and ecologically costly systems which have been employed up until now, and to reverse the trend towards the deterioration of the arid and semi-arid zones, while also attempting to make the most of their special characteristics.

In order to accomplish these tasks, the social and economic factors which determine resource use will have to be altered, and this entails making substantive changes in the current development style as well as formulating different development strategies. Such strategies would have to incorporate the energy dimension in order to give rise to a form of self-sustained development which makes the fullest possible use of the environmental endowment.

The Latin American ecosystems which have not yet undergone structural changes and which retain all or most of their original features possess a relative capacity for utilizing energy; clearly, the main feature of such ecosystems, which are in or near a state of climax,⁴ is the energy stored in their plant matter or biomass. On the

other hand, the ways used to artificialize the ecosystems in Latin America tend to make poor use of both the environment's energy endowment and the natural systems for recycling its stored energy thus creating dependent agrosystems which require the aid of "injections" of energy or, as they are commonly known, "energy subsidies".⁵ Most of these agrosystems are based on technology which gradually causes their deterioration while also generating a growing demand for energy for use in agricultural production.

These two factors form the basic problem in Latin American agriculture, i.e., how to artificialize the ecosystems—particularly the tropical, arid and semi-arid ones—in which ongoing agricultural activities are conducted, in such a way as to cause neither the loss of the energy stored in them nor the impairment of their capacity for procuring energy, while also allowing the concomitant creation of lasting agrosystems for the medium and long terms, which will not require increasing amounts of energy inputs for their maintenance, and which, in so far as possible, will be balanced through an appropriate use of the environmental endowment.

Consequently, the thesis advanced in this article is based on the need to design different agricultural development strategies which demand less energy, especially in its commercial forms, and which use energy more efficiently.

certain goods and by the application of measures for its management, genetic improvement, the introduction of resources such as irrigation water, or inputs such as fertilizers and pesticides. These changes, which generally lead to specialization, result in the loss of the ecosystem's original stability.

³The term "environmental endowment" refers to the resources present in ecosystems (water, soil, climate) and the interaction between them, which can be put to use by man.

⁴The term "climax" designates that stage at which the ecosystem has attained its maximum physical expression by reaching a dynamic balance where mechanisms of self-control are in operation.

⁵Energy subsidies sustain artificialization through the use of fertilizers, pesticides and agricultural machinery.

II

The energy efficiency of the prevailing agricultural technology model

1. *Commercial, non-commercial, primary and usable energy*

Forestry, crop-farming and livestock production consume only a small percentage of all commercial energy: FAO has estimated the world average at 3.5%, and that of Latin America at 3.8%.⁶ The system of agricultural production as a whole (including transport, agroindustry, etc.) consumes a much higher percentage of commercial energy, of course; the figures indicate that the entire chain, starting with food producers and ending with food consumers, absorbs an average of 20% of the commercial energy used.

There are very few data on Latin America, but some studies have shown that processing, transport, marketing and domestic consumption represent a higher percentage than production itself. Production absorbs between 3% and 3.5%; processing, transport and marketing use 5%-7%; and domestic consumption account for 4.7%. Taken together, the amount of commercial energy used in the food chain appears to fluctuate between 12.7% and 15.2%.⁷

This cursory analysis could lead to the recommendation of technological policies for agricultural production based on large energy subsidies on the grounds that the production systems do not use much energy. This is not the case, however. The adoption of agrosystems which misuse the environmental endowment results in missed opportunities for energy use; moreover, such new agrosystems commonly require increasing amounts of energy. Furthermore, this approach leads to the irretrievable loss of attributes of the ecosystem which could make it possible to practice a more viable type of agriculture from an ecological and economic standpoint.

The fact that agricultural production, and the rural sector in general, consume only a small

percentage of commercial energy does not mean they do not use energy. Generally speaking, there is a large amount of primary energy present in nature (sunlight, biomass), although this does not necessarily translate into a large supply of usable energy (for transport and combustion, for example).⁸ In agricultural areas, this type of energy is usually not commercial. In 1978 Revelle, as cited by D.V. Smith,⁹ calculated that the primary energy consumed by peasant sectors in Bolivia amounted to 25 370 kcal per capita per day,¹⁰ which is much higher than the average per capita consumption of Latin American cities. Human labour, animal power, the burning of plant matter, plant and animal wastes, and water power vary considerably from one ecosystem and from one appropriation structure to another. Vast areas of Latin America which are inhabited by peasants exhibit considerable shortages of usable energy, above all in arid and semi-arid zones, but this does not mean that there is a meagre environmental endowment of primary energy. The situation varies and, although there is some correlation between primary and usable energy, there are many instances in which this correlation does not hold.

2. *Energy efficiency*

In recent decades, increases in agricultural output in Latin America have been based on the intensification of agriculture in areas already in use. Except in Brazil, where the expansion of the

⁸The term "primary energy" refers to the total supply present before use, while "usable energy" is that which is actually involved in some process of change; this depends upon the efficiency with which it is converted.

⁹Douglas V. Smith, "Rural electrification or village energization?", *Interciencia*, Vol. 5, No. 2, Caracas, March-April 1980, pp. 86-91.

¹⁰The kcal has been adopted as a unit of measurement for this study; it is defined as 1 000 calories, or 1 000 times the amount of heat required to raise the temperature of 1 gram of water by 1 degree centigrade (from 15°C to 16°C).

⁶FAO, *Energía para...*, *op. cit.*, pp. 51-52.

⁷FAO, *ibid.*

agricultural frontier has been very great, 80% of the growth in agriculture during the 1970s was achieved through intensified farming and only 20% through the use of new land.¹¹

With some notable exceptions, the intensification of agriculture has been achieved through the application of the technological model of the "Green Revolution", which grew out of the intense experimentation conducted in the United States; however, as C. and J. Steinhart point out, this is the most energy-inefficient food production system in the world.¹² This technology's persistence in Latin America, despite the changes which have taken place over the last decade, is closely related to the emergence of the agricultural development style which has come to predominate in the region. This style has become established through control of the demand for certain products on the basis of predetermined standards of quality, the structuring of input and product marketing systems, agricultural demonstration and extension activities which portray this technology as the "only" option for raising output, and the fact that State or private technical assistance is in the hands of professionals who have been trained to apply these exogenous technologies.

According to this model, agricultural modernization is regarded as being virtually synonymous with the technology used in the United States. However, as G.W. Cox and M.D. Atkins have stated, even the simplest analysis shows just how impossible it would be to feed the world population at the nutritional level of the United States using technology of this sort.¹³ Pimentel *et al* have calculated, for example, that the energy inputs required in order to apply the type of agriculture used in the United States throughout the entire food system would amount to 1 250 litres of gasoline per capita annually. If these inputs were used to feed the world population at the nutritional levels of the United States and if

the known oil reserves (as of the early 1970s) were used to supply the energy for this, those reserves would be depleted in 13 years. Similar calculations for Latin America yield equally discouraging results.

The problem becomes even more involved upon analysing the trends in the energy efficiency of food production. FAO projections for 1985-1986 indicate that agricultural energy consumption will have increased by 177% in the developing countries in comparison to the 1973 consumption.¹⁴ The various studies conducted in order to estimate trends in energy efficiency focus on food production rather than crop-farming as a whole. Nonetheless, these data are representative of the overall situation.

In the United States in 1950, less than 1 commercial kcal¹⁵ was needed to produce 1 biological kcal of food (conversion of the energy contained in food). In 1970, 2.06 commercial kcal was needed for every 1 kcal of food (see table 1). If non-food crops are figured into these calculations, the ratios are not altered significant-

Table 1

UNITED STATES: AGRICULTURAL ENERGY BALANCE, 1970
(10¹² kcal)

<i>Commercial energy inputs</i>	
Irrigation	133
Fertilizers	150
Pesticides (not incorporated in irrigation)	12
Fuels	326
Machinery	101
Electricity	107
<i>Total</i>	829
<i>Products in terms of food energy</i>	
Consumption (200 × 10 ⁶ persons at 1 095 × 10 ⁶ kcal/person/year)	219
Residue from food production (20% more)	24
Exports (40 × 10 ⁶ tons at 4 × 10 ⁶ kcal/ton)	106
<i>Total</i>	403
<i>Ratio - commercial energy inputs/food-product energy</i>	2.06

Source: G.W. Cox and M.D. Atkins, *Agricultural Ecology*, *op. cit.*, p. 620.

¹¹ECLA, ECLA/FAO Joint Agriculture Division, "Veinticinco años en la agricultura de América Latina, rasgos principales, 1950-1975", *Cuadernos de la CEPAL Series*, Santiago, Chile, 1978.

¹²C. Steinhart and J. Steinhart, *Energy*, Duxbury Press, North Scituate, 1974.

¹³G.W. Cox and M.D. Atkins, *Agricultural Ecology*, Freeman, Ed., San Francisco, 1970, p. 626.

¹⁴FAO, *Energía para...*, *op. cit.*, p. 55

¹⁵Energy from commercial sources (oil, coal, hydroelectricity, nuclear plants).

ly, although it is possible that they may increase slightly due to the high level of artificialization of such crops as cotton.

In countries where crop-farming yields are not as high as in the United States, less energy is required to produce a unit of caloric energy, although the amount is rising steadily. Italy provides a good example of this pattern: in 1955, 0.46 commercial kcal was required to obtain 1 biological kcal; in 1965, this ratio had risen to 0.61 and more recently, in 1977, it had reached 1.01.¹⁶

From a physical/agronomic standpoint, the problem becomes more complex, not only because energy requirements increase as a result of the greater use of energy-intensive technologies, but also because there is a diminishing increase in yields (Mittcherlich's Law), which means that at

higher rates of land productivity, the marginal increase is smaller. Energy efficiency is therefore progressively lower in highly artificialized areas using the same given technologies.

When this problem of diminishing yields is compounded by the economic problem of rising oil prices, the situation becomes even worse. According to Volpi¹⁷ —to return for a moment to the case of Italy— the ratio of the petroleum equivalent needed to raise gross agricultural output by 1 000 pounds (1963) at producer prices was 1.21 in 1965 as compared to 1955. In 1977, as compared to 1965, this ratio had risen to 5.01.

Although, given the current economic situation, oil prices have not increased as much as expected, if there is an upward trend over the long term, then the ratio will progressively rise.

III

Energy inputs for agrosystems

1. *Technological inputs in terms of energy*

In order to explore the possible alternatives to the Green-Revolution technologies, the different relative magnitudes of the energy inputs used must be analysed and the ratios between them and the products involved, measured in terms of energy, must be compared.

In traditional extensive agriculture there is generally a low ratio between commercial energy inputs and the product (see table 2). Despite the fact that such agrosystems are not mechanized, the energy inputs vary considerably according to the animal labour added and the type of final product. In pasturage and mixed pasturage systems, the energy input is very low and the final product (animal production) is infinitesimal due to the conversion losses occurring in this type of production activity. Generally speaking, when the product of agricultural activities is of animal origin, the efficiency is low because the animals consume a great deal of energy in sustaining

themselves and in moving about. In contrast, the manioc crop of Zaire is outstanding for its large energy product and great energy efficiency. The relatively low energy efficiency of wheat crops in India and of sorghum crops in Nigeria is accounted for by the heavy use of animal power and the low energy yields which result.

A comparative study of the years 1945 and 1970 shows how the use of inputs for maize crops in the United States has evolved (see table 3). Energy use rose 213%. Fertilizers (nitrogen, phosphorus and potassium), which totalled 8.06% in 1945, represented 36.45% in 1970. Nitrogen fertilizers had a particularly significant impact in this respect, in that their use rose by 1 500% so that they alone accounted for nearly one-third of all the energy inputs. Although the relative share of machinery and gasoline declined (from 78.17% to 42.01%), in absolute terms they increased by 133% and 47%, respectively. Lastly, it should be noted that the

¹⁶Roberto Volpi, "Al servizio dello sviluppo agricolo (Problemi attuali e prospettive dell'energia nel mondo)", *Politica Internazionale*, No. 1, January 1981, pp. 41-48.

¹⁷Roberto Volpi, "Al servizio dello sviluppo...", *op. cit.* table 7.

Table 2
ENERGY INPUTS AND FOOD ENERGY OF SELECTED UNMECHANIZED AGROSYSTEMS
(kcal/halyear)^f

System	Food	Energy inputs				Energy product	Ratio: energy input Energy product
		Human	Animal	Industrial	Total		
<i>Pasturage</i>							
Africa ^a	Milk, meat	5 100	—	—	5 100	49 500	0.104
<i>Mixed pasturage</i>							
Uganda ^b	Milk, meat grain	69 000	—	—	69 000	197 000	0.350
<i>Rotated crops</i>							
Guinea ^c	Mixed grains	1 390 000	—	—	1 390 000	22 780 000	0.061
Thailand ^d	Rice	340 000	—	6 000	346 000	6 220 000	0.056
Mexico ^c	Maize	659 200	—	16 500	675 700	6 843 000	0.099
Sudan ^c	Sorghum	193 300	—	16 500	209 800	2 970 000	0.071
Zaire ^c	Manioc	556 200	—	16 500	572 700	21 450 000	0.027
<i>Irrigation by flooding</i>							
Thailand ^d	Rice	124 000	10 000	18 000	152 000	5 730 000	0.027
<i>Rice-paddy irrigation</i>							
Thailand ^d	Rice	348 000	19 000	47 000	414 000	9 400 000	0.044
<i>Permanent farming</i>							
Mexico ^c	Maize	208 400	693 000	41 400	979 400	3 312 300	0.294
India ^c	Wheat	334 700	2 247 000	41 400	2 837 600	2 709 300	1.047
Philippines ^c	Rice	313 500	952 000	161 900	1 831 300	6 004 000	0.305
Nigeria ^c	Sorghum	63 100	2 555 000	41 400	2 722 200	2 471 700	1.101

Source: G.W. Cox and M.D. Atkins, *Agricultural Ecology, op. cit.*, p. 601.

^a Brown, 1971.

^b Odum, 1967.

^c Rappaport, 1971.

^d Hanks, 1972.

^e Pimentel, 1974.

^f The data represent measurements of energy inputs and products per hectare over a period of one year.

only input which decreased was the labour force (61%).

The study on maize indicates the general trend which exists in United States agriculture. An analysis of other crops might well show that, in some, this trend has become even more pronounced. A study conducted in 1971 in the United States comparing wheat, rice and potatoes (see table 4) points up significant differences in the amount of energy inputs used. In the case of rice, 44.88% corresponded to irrigation. As regards the other two crops, which do not use irrigation, machinery and fuel played an impor-

tant role: 49.56% for wheat and 34.31% for potatoes. The combined figure for fertilizers (NPK) was also very significant: 28.71% for wheat and 45.79% for potatoes. Rice had the highest productivity with 21 039 480 kcal, but the high yield of unirrigated potatoes (19 712 000 kcal) was also noteworthy.

These studies corroborate the fact that systems involving large energy subsidies have a low energy yield.

Although quite different methods were used in arriving at a number of the calculations shown in table 5, their comparison indicates a rela-

Table 3
UNITED STATES: ENERGY INPUTS AND PRODUCTS FOR
MAIZE, 1945 AND 1970
(kcal/ha/year)

Inputs	1945	Percentage	1970	Percentage	Percentage of each input compared to 1945
Labour	5 062.5	1.35	1 984.5	0.17	-61
Machinery	72 900.0	19.45	170 100.0	14.50	133
Gasoline	220 077.0	58.72	322 785.0	27.51	47
Nitrogen	23 814.0	6.35	381 024.0	32.47	1 500
Phosphorus	4 293.0	1.15	19 075.5	1.63	344
Potassium	2 106.0	0.56	27 540.0	2.35	1 208
Seeds	13 770.0	3.67	25 515.0	2.18	85
Irrigation	7 695.0	2.05	13 770.0	1.17	79
Insecticides	—	—	4 455.0	0.38	—
Herbicides	—	—	4 455.0	0.38	—
Drying	4 050.0	1.08	48 600.0	4.14	1 100
Electricity	12 960.0	3.46	125 550.0	10.70	869
Int. transport	8 100.0	2.16	28 350.0	2.42	250
<i>Total</i>	<i>374 827.5</i>	<i>100.00</i>	<i>1 173 204.0</i>	<i>100.0</i>	<i>213</i>
Energy product-maize	1 388 016.0		3 306 744.0		

Source: Based on Pimentel *et al*, *American Association for the Advancement of Science*, 1973

Table 4
UNITED STATES: ENERGY INPUTS AND PRODUCTS FOR WHEAT,
RICE AND POTATOES AROUND 1971
(kcal/ha/year)

	Wheat		Rice		Potatoes	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Labour	6 531	0.14	16 328	0.11	32 655	0.38
Machinery	1 037 400	21.63	1 037 400	7.11	1 000 000	11.54
Fuel	1 339 800	27.93	2 153 250	14.76	1 971 420	22.77
Nitrogen	1 284 800	26.78	2 358 400	16.17	2 601 280	30.03
Phosphorus	54 230	1.13	—	—	818 235	9.45
Potassium	37 400	0.80	147 400	1.01	546 920	6.31
Seeds	552 750	11.52	813 120	5.57	269 500	3.11
Irrigation	—	—	6 545 880	44.88	—	—
Insecticides	26 620	0.55	135 520	0.93	135 520	1.56
Herbicides	—	—	135 520	0.93	135 520	1.56
Fungicides	—	—	—	—	135 520	1.56
Electricity	370 500	7.72	—	—	765 700	8.84
Drying	—	—	1 070 597	7.34	—	—
Transport	86 450	1.80	172 900	1.18	250 000	2.89
<i>Total</i>	<i>4 796 481</i>	<i>100.00</i>	<i>14 586 315</i>	<i>100.00</i>	<i>8 662 270</i>	<i>100.00</i>
Energy product	8 428 200		21 039 480		19 712 000	

Source: Based on tables prepared by Pimentel *et al*, *American Association for the Advancement of Science*, 1974; G.W. Cox and M.D. Atkins, *Agricultural Ecology*, *op. cit.*, p. 608.

Table 5
TOTAL INPUTS, ENERGY PRODUCTS AND ENERGY EFFICIENCY
OF AGROSYSTEMS
(kcal/hal/year)

Agrosystem	Total energy input	Energy product	Input product
Pasturage, Africa ^a	5 150	49 500	0.104
Cleaning and rotational fallowing, Mexico ^b	675 700	6 843 000	0.099
Permanent farming, Mexico ^b	979 400	3 331 230	0.294
Permanent farming, India ^b	2 837 760	2 709 300	1.047
Maize, United States ^c	1 173 204	3 306 744	0.355
Wheat, United States ^b	4 796 481	8 428 200	0.569
Rice (irrigated), United States ^b	14 586 315	21 039 480	0.693
Apples, United States ^d	18 000 000	9 600 000	1.875
Spinach, United States ^d	12 800 000	2 900 000	4.414
Tomatoes, United States ^d	16 000 000		1.616

Source: Prepared by the author on the basis of data provided by Pimentel, Brown and Pimentel and Pimentel.

^a Brown, 1971.

^b Pimentel, 1974.

^c Pimentel, 1973.

^d Pimentel and Pimentel, 1979.

tionship between a high level of energy consumption and inefficient energy use, as may be seen in the case of fruit and vegetable crops. This correlation is not very high, because there are instances of non-mechanized farming having very inefficient ratings due to the use of animal power, whose energy cost is quite high. Although there is also a high correlation between large subsidies and large yields, this is not always the case, because large yields can be obtained with relatively small subsidies—resulting in high rates of energy efficiency—by rotating crops and by allowing land to lie fallow. What is certain is that when the technological package associated with mechanization is used, its energy supply is almost entirely commercial in nature. When animal power is used, only a part of the energy used is commercial. The energy cost of maintaining the animals is very high, but the cost in terms of commercial energy is usually low. Finally, it should be noted that the methods used to calculate the energy value (in kcal) of non-permanent pasturage and crop-farming systems do not provide details about the “harvest” from the ecosystem or, in other words, the use made of the

energy stored up by the ecosystem during its formation, corresponding to the energy extracted over and above its recovery capacity.

In connection with animal foods, it is particularly interesting to analyse the energy efficiency of protein production, which is obviously very low because the plant-to-animal conversion of energy represents one more step in the trophic web¹⁸ and because energy inputs are needed to maintain the breeding herd.

Table 6 shows the different ratios between the inputs of fossil fuels (oil and coal) and the protein produced. The most inefficient ratio is that of intensive cattle raising, where 1 kcal of protein requires an energy subsidy of 77.7 kcal. The least inefficient ratio is that of egg production (13.1:1).

2. The energy yield of the labour force

The questions raised about the technologies of the Green Revolution may be answered with

¹⁸Trophic webs are produced by the interrelationship between predators and their prey. A large amount of energy is lost at each level.

Table 6
UNITED STATES: PROTEIN PRODUCT AND FOSSIL-FUEL ENERGY
INPUTS, PER HECTARE/YEAR
(kcal/ha/year)

Animal product	Protein product	Fossil-fuel energy input	Fossil-fuel input
			Protein product
Milk	238 468	8 561 000	35.9
Eggs	729 771	9 560 000	13.1
Poultry (broiler)	463 032	10 233 000	22.1
Pork	260 226	9 212 000	35.4
Beef (intensive)	203 925	15 845 000	77.7
Lamb and mutton (extensive)	679	11 000	16.2

Source: Prepared by the author on the basis of data provided by Pimentel *et al*, *American Association for the Advancement of Science*, 1975.

arguments relating to the high yields of the labour force (see table 7). This type of agriculture is marked by a high energy return per worker; for example, in United States wheat cultivation, 1 man/month produces 1 204 029 kcal and the figure for the maize crop is 275 562 kcal, whereas in Mexico the yield is only 4 800 kcal. A considerable input of commercial energy is involved, however. While the maize crop requires a subsidy of 97 767 kcal per man/month in the United States, in Mexico the subsidy is insignificant (242 kcal). If the commercial energy con-

sumed is subtracted from the commercial energy produced and the yield per man/month is calculated, the figure will be greater for highly artificialized crops. For example, the net commercial yield for maize is 177 795 kcal per man/month, whereas in Mexico it is only 4 558. These conclusions should be accepted with some reservations, however, since the balance is negative in many crops. Thus, the commercial energy balance of a fruit (apples) per man/month is -48 000 kcal and for the vegetable crop (spinach) it is -176 786 kcal.

Table 7
RATIO OF THE LABOUR FORCE TO COMMERCIAL ENERGY, THE ENERGY PRODUCT AND THE NET ENERGY BALANCE
(Half-year)

Country	Product	Commercial energy input (kcal)	Gross commercial product (kcal)	Net energy balance (kcal)	Labour force (man-hours/ year)	Commercial energy input/ labour force	Gross commercial product/ labour force	Commercial energy balance/ labour force
		(1)	(2)	(3) = (2)-(1)	(4)	(1) : (4)	(2) : (4)	(3) : (4)
Africa	Pasture	—	49 500	49 500	17	—	2 912	2 912
Mexico	Maize crop, cleaning and rotational fallowing	66 825	6 843 000	6 675 330	2 297	29	2 979	2 906
Mexico	Maize (permanent farming)	167 670	3 331 230	3 163 560	694	242	4 800	4 558
India	Wheat (permanent farming)	167 670	2 709 300	2 541 630	1 115	150	2 430	2 279
United States	Maize-mechanized	1 173 204	3 306 744	2 133 540	12	97 767	275 562	177 795
United States	Wheat-mechanized	4 796 481	8 428 200	3 631 719	7	685 212	1 204 029	518 817
United States	Rice-mechanized	14 586 315	21 039 480	6 453 165	17	858 019	1 237 616	379 598
United States	Apples	18 000 000	9 600 000	-8 400 000	175	102 857	54 857	-48 000
United States	Spinach	12 800 000	2 900 000	-9 900 000	56	228 571	51 786	-176 786
United States	Tomatoes	16 000 000	9 900 000	-6 100 000	165	96 970	60 000	-36 970

Source: Prepared by the author on the basis of data provided by Pimentel *et al.*, (1973), (1974); Pimentel and Pimentel (1979), and Brown (1971).

IV

The options for Latin America

1. *The environmental energy endowment*

The prevailing development style in Latin America not only damages the environment but also, because of its tendency to copy exogenous technologies, misuses the enormous environmental endowment of the region's ecosystems.¹⁹ Before analysing the specific characteristics of Latin American ecosystems, some comments are called for regarding the energy efficiency of plants, which are the basis for the harnessing of solar energy through photosynthesis. Only a small part (less than 5%) of the solar energy reaching plants is converted into biomass. Herbivores, which utilize more concentrated energy sources, use 90% of the plant matter they consume for their sustenance.²⁰ As energy moves through the trophic sequences of ecological communities, major losses take place in the form of respiration. In natural ecosystems, however, organism—unlike machines—sustain themselves, meet the need for storage, reproduce and tend to diversify in the interests of future survival.²¹ Because of this, solar energy inputs in "mature" natural ecosystems tend towards a maintenance level, and their net energy production is consequently nil.²² Agriculture, in the process of artificialization, attempts to transform these ecosystems into more simplified agrosystems in order to extract biomass (which is measurable in terms of ener-

gy). If the many ecosystems which have not yet undergone structural changes are to remain undamaged, or if attempts are made to simplify them while taking advantage of certain features, then these systems must be managed in such a way that, as the energy levels pass from "maintenance" levels to given levels of "net production", other features are also preserved, such as stability and flexibility.

Clearly, the resource represented by the environmental energy endowment cannot be made the sole object of a one-sided analysis, but instead must be studied as an integral part of the ecosystem. Nonetheless, it should be recognized that Latin America exhibits a high degree of solar radiation due to the large percentage of the region that is situated in the tropics and to its exceptional altitudes. Nearly three fourths of the territory receives 16 kcal/cm² of radiation in the best month and 12-16 kcal/cm² in the worst.²³ Moreover, in the tropics the temperature/humidity ratio in terms of the production of biomass approaches the optimum.

The fact that almost all the territory of Latin America has a relatively even number of hours of daylight and of darkness means that producer and consumer functions in the region exhibit a certain degree of homogeneity. This produces large expanses of foliage where dry matter accumulates on top of the soil. As a result, the plants have abundant leaves and relatively scanty roots.

The ratio between photic energy and temperature is quite adequate in vast sectors of the region, and full advantage tends to be taken of the process of photosynthesis in these areas.

The adequate supply of environmental energy combines with a large water supply in the humid tropics to bring about a high level of productivity in terms of biomass. Margaleff estimates that tropical forests where the biomass

¹⁹See Nicolo Gligo, "Estilos de desarrollo, modernización y medio ambiente en la agricultura latinoamericana", *Estudios e informes de la CEPAL series*, No. 4, June 1981; Jaime Hurtubia, "Ecología y desarrollo: evolución y perspectivas del pensamiento ecológico", in *Estilos de desarrollo y medio ambiente en la América Latina*, Fondo de Cultura Económica, Serie Lecturas No. 36, Mexico, 1981, pp. 158-204; "La evolución del pensamiento ecológico", E/CEPAL/PROY. 2/R.45, October 1979; and E.P. Odum, *Ecología*, Nueva Editorial Interamericana, 1972.

²⁰Joshua Dickinson, "Perspectivas ecológicas sobre el desarrollo", *Interciencia*, Vol. 6, No. 1, Caracas, January-February 1981, pp. 30-38.

²¹Jaime Hurtubia, "La evolución del...", *op. cit.*, p. 42.

²²"Net energy production" means the amount of energy in excess of the point of equilibrium, which thus permits energy to be stored up.

²³UNDP/OLADE, "Requerimientos futuros de fuentes no convencionales de energía en América Latina", Quito, June 1979, p. 80.

ranges from 3 200 to 40 000 gr/carbon/M² have a net production of between 1 000 and 1 500 gr/carbon/m² per year.²⁴ FAO calculations indicate that these ecosystems have a photosynthetic yield ranging from 3 to 10 gr/m²/day of gross dry organic matter.²⁵ The net production of these ecosystems is no doubt higher than that of any other in absolute terms, but in terms of energy efficiency, ecosystems with less biomass expend less in the form of respiration and are therefore more efficient in converting solar energy into net energy. This fact should be taken into consideration when exploring the possibilities for improving areas with a low level of biomass per unit of surface area. Such is the case in areas far from the tropics, where the average solar radiation is low but where the conversion of solar energy into gross output is more efficient during the growing season, especially in the long days of summer. Net production in relation to gross production is also more efficient in these areas due to the fact that there are fewer organisms performing respiration.

Something similar to what occurs in the humid tropics happens in the arid or semi-arid zones. The high temperatures cause the plants to spend more of their gross energy output on respiration.²⁶ In this case, water is the major constraint, while solar radiation is extremely plentiful.

2. Energy as a factor in technological policies for the agricultural development of Latin America²⁷

a) The degree of artificialization of the ecosystems

The degrees of ecosystem intervention present in the region cover the entire spectrum from virgin areas to highly artificialized single-crop

farming using equal or sometimes even greater amounts of energy inputs than in the developed countries.

In virgin ecosystems and in the those with a low degree of artificialization which have not undergone major structural changes, a type of treatment can be applied which involves a technological policy based on a full understanding of the functions and features of the ecosystems and is aimed at making proper use of the environmental endowment.

A considerable part of the attributes of the more artificialized areas which have undergone major structural changes have been lost. The great majority of these changes are irreversible, although some situations other than the natural state do exist where some of these attributes are developed. In such cases, the ecosystem functions quite differently from the way in which it originally did. In general, traditionally agricultural areas that have been in use for several decades have been converted into a type of agrosystem which requires energy subsidies in order to produce. As the productivity of these areas increases, the yield of additional energy inputs diminishes, i.e., the higher their productivity, the more difficult it is to raise it.

Nevertheless, there are different types of subsidies for these ecosystems in terms of the use of organic fertilizers. Lockeretz *et al* conducted an in-depth comparative study of farms using energy-intensive production systems based on the application of inorganic fertilizers versus those using organic fertilizers.²⁸ They reached the conclusion that there was no difference in the net returns of the farms: the total output of the farms using organic fertilizers was only 55%-77% of that of the farms using inorganic fertilizers, but the energy costs were much lower for the "organic" farms (only about 30% of those of the "inorganic" farms).

In view of these circumstances, one might well ask why there continues to be an insistence on policies which promote inorganic fertilizers

²⁴Ramón Margaleff, *Ecología*, Ediciones Omega, Barcelona, 1974, p. 465-951.

²⁵FAO, *Energía para...*, *op. cit.*, p. 105.

²⁶Eugene P. Odum, *Fundamentals of ecology*, W.B. Saunders Company, Philadelphia, 1971, p. 45.

²⁷ECLA, Development and Environment Unit (with the assistance of Sergio Alvarado), "Estilos de desarrollo, energía y medio ambiente: Un estudio de caso exploratorio", in *Estudios e informes de la CEPAL series*, No. 28 (E/CEPAL/G. 1254), July 1983. This document explores the outlook as regards the oil crisis and the pressing need to modify demand.

²⁸W. Lockeretz, R. Klepper, B. Commoner, M. Gertler, S. Fast, D.O. Leary and R. Blobaum, *A comparison of the production, economic returns, and energy intensiveness of corn belt farms that do and do not use inorganic fertilizers and pesticides*, Washington University Centre for Biology and Natural Systems, St. Louis, 1975.

almost exclusively. The answer must be sought in the distinguishing factors of the style: specialization in the supply of certain inputs, the role of transnationals in marketing technological inputs, agricultural experimentation "induced" by biased technological models, and a technocratic propensity towards maximizing land productivity.

On the other hand, radical changes can also be introduced in order to reduce the consumption of commercial energy within schemes for raising production through the use of the classical technological package. In this connection, Johnson *et al.*, as cited by G.W. Cox and M.D. Atkins, studied the possibility of maintaining a high level of production per unit of surface area with less energy-intensive technologies. The study was intended to show that energy could be saved, basically in mechanization, while using the same technological model. It was demonstrated that an input/product ratio of 1.81:1 could be lowered to 0.99:1 with no more than a 4% drop in production. Such savings could only be obtained up to a certain threshold, however, since when the ratio was reduced to 0.67:1, output was 47% lower.²⁹

b) *The challenge posed by the humid tropics*

The extensive areas in Latin America which are only partially settled offer different options depending on the role assigned to them in the near and not so near future. The repeated failures which have been met with in settling these areas suggest the advisability of making sweeping changes in the development strategies for these lands. An energy-focussed analysis of the expansion of the agricultural frontier is of special interest in this connection.

The first major topic of discussion is the problem of the energy stored as biomass.³⁰ This is accumulated over centuries until the climax point is reached, when it tends to stay at a dynamically stable level. This biomass tends to be de-

stroyed through the cutting of timber for use in industry or as a fuel, and it is also often burned as a quick and inexpensive way of preparing the soil for agricultural use. One way or another, the ecosystem is damaged in terms of energy, because a significant portion of the foliage cover and, thus, its capacity for photosynthesis, are destroyed. The first major challenge, therefore, is to preserve some measure of the ecosystem's capacity to transform and accumulate energy.

From the standpoint of forestry production, the yearly growth of mature forests is extremely low because the photosynthetic functions are in balance with the respiratory functions. Stands in the process of growth as well as tracts of exploitable forest currently exist in Latin America, however, and an annual potential growth rate can be estimated which would be equal to the capacity for accumulating energy. J.I. Leyton³¹ calculates that there are over 506 million hectares of humid tropical forests in the region, with total reserves of between 50 600 million and 75 900 million cubic metres (100-150 m³/ha), plus exploitable stock in the process of formation amounting to 30 400 million cubic metres (60 m³/ha), with a potential total annual growth rate of between 508 million and 1 016 million cubic metres (1-3 m³/ha/year).

The other major problem connected with these ecosystems is how to use technology to change them in a way which will allow the environmental endowment to be utilized without causing damage. This consideration suggests the following general principles:

- i) The "anatomy" or "architecture" of the ecosystems of the humid tropics must be preserved, since its alteration results in a large loss of stored energy and converts them into unstable agrosystems which require energy subsidies.
- ii) In the course of artificialization, the loss of inertia or stability should be avoided in order to allow the capacity for energy accumulation to be retained.

²⁹G.W. Cox and M.D. Atkins, *Agricultural Ecology*, *op. cit.*, p. 625.

³⁰UNEP defines biomass as the total volume of living matter present at any one time within a given population or area. See *El estado del medio ambiente: temas seleccionados*, 1983 (UNEP/GC.11/4), 21 February 1983.

³¹José I. Leyton, "Manejo y utilización del bosque húmedo tropical", FAO, Technical meeting on Latin American forests, Mexico City, 11-15 February 1980.

- iii) A moderate degree of artificialization permits a healing process to take place as a function of the elasticity of the ecosystem.³²
- iv) If a process of specialization takes place which involves the elimination of some species, they should be replaced by exogenous species which fulfill equivalent functions.

Based on these principles, the energy orientation of technological policies should be as follows:

- i) To make recommendations relating to energy efficiency and to establish land use systems whose subsidy requirements are small.
- ii) To orient forestry, crop-farming and stock raising practices towards management techniques which preserve the structure and basic features of the ecosystem concerned; this means avoiding the substitution or elimination of the forest cover except when agricultural production can be sustained over the long term.
- iii) To adopt new developments in genetic techniques aimed at increasing the efficiency of photosynthesis. The vast possibilities offered by genetic engineering in this field could lead to great technological breakthroughs. The genetic pools in the humid tropics should provide the basis for such improvements.
- iv) To minimize the use of chemical techniques and mechanization in the working of farmland. These measures affect genetic efficiency.
- v) To improve or introduce means of achieving greater biological nitrogen fixation.

It will become increasingly possible to put the above guidelines into practice as greater and greater compatibility is attained between short-term land productivity and medium- and long-term natural resource conservation. In order to do so, strategies will have to be devised which take into consideration *all* the policies relating to the settlement of the humid tropics, rather than only those relating to agricultural production.

c) The challenge posed by the arid and semi-arid zones

From an energy standpoint, the following

considerations are important as regards the establishment of technological policies for arid and semi-arid zones:

- i) Ecosystems in arid and semi-arid zones usually become unstable when man-made changes are introduced, and therefore deteriorate rapidly.
- ii) Generally, despite the large environmental energy endowment, the limited water supply prevents or reduces photosynthesis, and this results in a low level of biomass per unit of surface area.
- iii) Structural changes can be made in the ecosystem with fewer complications than in the humid tropics.

In Latin America these areas have been subject to various modifications. Firstly, there have been major changes in the irrigated tracts, where a total structural transformation has been brought about by the fact that, once the limiting factor of water has been overcome, the environmental energy endowment has been heavily utilized. In fact, water works are one of man's major opportunities for achieving total environmental management.³³ Much still remains to be done in connection with irrigation in order to promote energy conservation. In irrigated farming, the need to save water has led to the introduction of overhead or drip irrigation systems which use energy, and new techniques should therefore be directed towards making savings in these systems. Secondly, new harvesting techniques and the use of soil topdressing to improve its water retention capacity can help produce a significant energy savings.³⁴

The technological problems relating to energy production and use in arid and semi-arid zones are not seen in irrigated tracts, however, but rather in the drylands. In the zones with a potential for irrigation, the problem is usually an economic-financial one, but once water and distribution systems become available, there are various well-known technologies for bringing such zones into production.

The situation in the non-irrigated areas of Latin America is a very difficult one because

³²The healing process means the ecosystem's capacity to recover by closing the wounds inflicted upon it.

³³Axel Dourojeanni and Terence Lee, "Aspectos ambientales de la gestión de grandes obras de infraestructura" (E/CEAP/PROV. 6/R.2), 24 September 1981.

³⁴FAO, *Energía para...*, op.cit., p. 258

most of them have been subjected to overexploitation. The scant supply of biomass per unit of surface area, combined with the vulnerability of these ecosystems, have often set in motion detrimental processes which have commonly resulted in desertification. "In some cases, the proportion of photosynthesized energy is very low due to the lack of water, but in others, it is due to the inefficiency of farming practices."³⁵

The first challenge to be met in these areas is therefore to halt the processes which are doing damage. In order to do this, the energy analysis incorporated in technological policies should be oriented towards the following measures:

- i) To ascertain man/land relations, basic needs and the per capita supply of resources with a view to determining what pressures are exerted on the resources and avoiding excessive rates of extraction;
- ii) To draw up energy balance sheets for the artificialized areas in order to determine the rates of extraction;
- iii) To make use primarily of technologies designed to ensure proper crop rotation, crop combinations and planting times;
- iv) To establish farming systems for sloping terrain which reduce the energy inherent in the topography and allow it to be put to use.³⁶ One example would be the re-introduction of terracing and similar practices.

The second major challenge to be met in these zones is the reclamation of damaged areas and lands which are in the process of desertification. Energy considerations suggest the following recommendations as a means of giving technological policies a more comprehensive orientation:

- i) Ascertaining the nature of degradational trends on the basis of energy flows and relating them to economic and social conditions;
- ii) Establishing an agrosystem which duplicates some of the basic features of the ecosystem at its point of climax and which will lead to the

most efficient possible conversion of solar energy through photosynthesis;

- iii) As part of such reclamation, photosynthesis should interact with the land's water retention capacity so as to break the vicious circle of overexploitation and deterioration in order to allow the accumulation of energy and water. Supporting policies should therefore be established which will allow energy to be accumulated by preventing its extraction during the first few years;³⁷
- iv) Genetic technologies should have top priority within the reclamation effort in order to boost efficiency;
- v) Management technologies should be established in co-ordination with new man/land relations which avoid the overexploitation of resources;
- vi) A type of management should be established in which stock-raising has an integral function.

The third major challenge to be dealt with in such non-irrigated zones is to incorporate areas which are used very little because they are marginal or sub-marginal. This is of special importance in the Andean zone, where upper ecological levels are in use on a very extensive basis. The energy-related approach in this regard should be oriented towards the following considerations:

- i) A type of farming which gives ecological considerations a prominent place and which uses technology to cope with environmental constraints in order to allow the resources of the environment to be properly utilized should be established. Within this context, energy should be regarded as a factor of supply;
- ii) The causes of marginality are to be found in the limitations of the ecosystems. Incorporation of marginal lands should therefore be done cautiously and gradually in order to conserve the small amount of energy which has been accumulated;³⁸

³⁵Roberto Nava, Roberto Armijo and Juan Gastó, "Ecosistema, la unidad de la naturaleza y el hombre" *Serie Recursos Naturales*, Universidad Autónoma Agraria Antonio Narro, Saltillo, Coahuila, Mexico, 1979.

³⁶This is the energy produced by differences in slope, and usually leads to erosion.

³⁷An interesting study on this subject was conducted by the University of Cajamarca, in Peru. See "Experiencia del programa de desarrollo rural integral silvoagropecuario de Cajamarca-Perú" (E/CEPAL/PROY. 6/R.37), February 1982.

³⁸In regard to the agricultural outlook, see "Estudio agroclimológico de la zona andina" (FACO/UNESCO/WMO), Technical paper, Rome, 1975.

- iii) Genetic technologies should be given priority in order to produce a beneficial type of artificialization and to cancel out the costs involved in energy extraction. The first step should be the introduction of plants whose genetically-controlled metabolic characteristics give them a high water yield. Both the current genetic contribution and the possibility of further improving shrub-like forage species should be carefully studied.
- iv) In this regard, some of the factors which should be borne in mind are: research aimed at improving the photosynthetic mechanisms of carbon fixation; genetic engineering using cultures of cellular tissue which may have an effect on water/energy efficiency; the selection of plants for greater efficiency under adverse water and temperature conditions; and greater nitrogen fixation and its regulation through photosynthesis;³⁹
- v) The specific features of certain areas make them suitable for certain types of stock-raising which have a great potential. In this connection, advantage should be taken of the natural selection which has produced highly energy-efficient animals such as the camelidae. Their improvement and development may permit the utilization of ecosystems where there is a scarcity of water and energy resources.⁴⁰

³⁹Kuwait Foundation for the Advancement of Sciences (KFAS), *Advances in food-producing systems for arid and semiarid lands*, Academy Press, New York, 1981, p. 126.

⁴⁰See Alejandro Colomé, "Producción pecuaria y desarrollo de la ganadería de la vicuña en la ecorregión andina" (E/CEPAL/PROY. 6/R.40), Santiago, Chile, March 1982.

Latin American commodity exports

The case of cotton fibre

*Alberto Orlandi**

One of the economic activities that has been most seriously affected by the current crisis of the Latin American economy is the production and exportation of commodities.

In the case of cotton, a product which is of such vital importance to some countries of the region, this difficulty has been further aggravated by a structural crisis whose signs had already been evident in recent decades, particularly as a result of the strong competition of synthetic fibres.

In this article, a brief analysis is made of trends in the production, trade and consumption of cotton fibre in the world; this is followed by a review of the factors that have influenced this competition, stressing its implications for Latin America. Later on, a description of the general features of the cotton industry in the region serves as an introduction to a more detailed study of five country cases: Argentina, Paraguay, Mexico, Guatemala and Nicaragua.

Although the five cases are very different in many respects (as regards the importance of cotton in the national economy, the economic agents that are present in cotton production and trading, public policies, etc.), they nevertheless have one thing in common: there has been a process of erosion of the profitability of the cotton industry which has accelerated in recent years and has raised serious doubts regarding the future viability of this crop.

The author then discusses the attempts that have been made, so far not very successfully, to achieve international co-ordination in the area of cotton, and, in conclusion, evaluates briefly the different ways in which the cotton-growing countries of Latin America have responded to the current crisis.

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This article is a summarized version of a broader study (*América Latina y la economía mundial del algodón*) to be published soon.

Introduction

One of the fundamental concepts of Latin American structuralist economics, in its most genuine and original expression,¹ has been that one of the main obstacles to development is the chronic deterioration of the terms of trade of commodity-exporting countries, as the relative prices of their commodities have fallen constantly *vis-à-vis* the prices of imported manufactured goods.

What made it difficult to overcome this situation within the existing scheme of world economic organization was basically a difference in the income-elasticities of demand, which appear to be lower with respect to commodities than with respect to industrial goods.

This was one of the most important reasons for the creation of UNCTAD in the mid-1960s. Thus, strategies regarding commodities and, above all, concerning commodity price stabilization agreements became the axis of international co-operation for development.

This approach was criticized from several angles. Some considered it reductionist, in that many Latin American countries were going into economic spheres that transcended the mere extraction and exportation of raw materials; others felt that it had been overtaken by events, in view of the oil crisis which led to an increase in the relative prices of some commodities.

In practice, although there is no question that the share of commodities in overall Latin American exports has declined, they are still very important, accounting for over 40% in the region as a whole and over 70% when the oil-exporting countries are excluded.

Moreover, the arguments which explain—beyond sharp short-term fluctuations—the chronic deterioration of relative prices are fundamentally valid for most commodities other than oil, which is a very special case.

Thus, in times of crisis such as the present, commodity prices tend to fall more than would

¹In this regard, see R. Prebisch, *The Economic Development of Latin America and its Principal Problems*, United Nations, New York, 1949; ECLA, *Economic Survey of Latin America*, Santiago, 1949; R. Prebisch, *Nueva política comercial para el desarrollo*, Mexico City, Fondo de Cultura Económica, 1964; and R. Prebisch, *Hacia una estrategia global para el desarrollo*, United Nations, New York, 1968. These documents are reproduced in a recent publication entitled *La obra de Prebisch en la CEPAL (Selección de A. Gurrieri)*, Mexico City, Fondo de Cultura Económica, 1982.

seem justified in light of the level of world economic activity, at least as long as there are no direct mechanisms for protecting them.

The economic resources of much of the population of many Latin American countries and a decisive proportion of their capacity for procuring foreign exchange depend on commodities; therefore, it is often impossible to establish measures to restrict supply so as to adjust it to depressive periods (in Guatemala, these proportions are 20% for both cotton and coffee; in Nicaragua, 25% for cotton and 20% for coffee). This is particularly true in the case of agri-

cultural and mining goods, which have a minimum production period of several years, but it is also true in the case of annual crops such as cotton, inasmuch as it would be very difficult to replace them by other crops, at least over the short term.

This article presents a description and a critical evaluation of the cotton industry in Latin America, particularly from the standpoint of its role in exports. Emphasis is placed on those elements serving to throw light on the current situation, which may be defined as one of crisis, both conjunctural and structural.

I

Cotton fibre in the world

More than 65 million bales (a bale weighs 480 pounds) of cotton were produced throughout the world in 1980. This is more than twice the amount produced in 1950 and almost 50% more than the production for 1961. This means that, despite the considerable competition of synthetic fibres, cotton production has grown steadily throughout the postwar period.

At the same time, however, the relative share of the various regions of the world has changed. The United States, which accounted for around one-third of total world production up to the 1960s, has seen its share drop sharply to its present level of 18%. For the drop in the United States' share there has been a corresponding increase, in percentage terms, by the centrally planned economies, particularly China and the Soviet Union, whose shares of total world production now amount to 19% and 22%.

The developing countries, for their part, have expanded their output of cotton at the same rate that world production has increased, thus maintaining a 40% to 45% share throughout the postwar period. The same may be said of Latin America, whose share in total world production has not changed significantly over the last two decades (a trend which was also maintained by Brazil, the main producer of the region). Mexico's share, however, has fallen steadily.

Between 1960 and 1980, the area sown with cotton remained constant at a worldwide level of around 32 million hectares. However, its distribution among the different areas of the world changed in approximately the same way as trends in production. Consequently, increases in production have been due to substantial increases in yields, which in turn are the result of technological innovations relating to the development of new varieties, pest control, mechanized harvesting and the use of fertilizers.

Without taking sides in the controversy which has arisen regarding the ecological damage caused by the excessive use of pesticides and fertilizers and the heavy impact of production costs, which absorb much of the increase in yields, it should be noted that yields have indeed increased remarkably both at the worldwide level (from 316 to 433 kg per hectare between 1960 and 1980) and also in Latin America (from 300 to 409 kg/ha). Some countries, such as Mexico, El Salvador and Guatemala, had some of the highest yields in the world in 1980. This was particularly true of Guatemala, which with 1 238 kg/ha ranked second in the world, after Israel and before Australia and Egypt.

As regards *consumption* of cotton fibre over the last few decades, there has been a definite

increase, in both absolute and relative terms and in both developing and centrally-planned-economy countries. At the beginning of the 1980s, these two areas already accounted for 80% of world consumption (compared with 60% in 1960) while the industrialized countries' share dropped to half during the same period, i.e., from 40% to 20% approximately. In this regard, it is interesting to note that, despite the fact that most of the trade in cotton takes place outside the

markets of the industrialized countries, they are the ones who set the prices.

It is no less important, also, to note the evolution of apparent consumption of cotton in the Chinese People's Republic, which, from a level lower than that of Europe or the United States in 1961, has now reached the point where it is equivalent to around one-fourth of the world total and is thus higher than that of the industrialized countries as a whole (see table 1).

II

Cotton and synthetic fibres

Between 1955 and 1978, world consumption of textile fibres as a whole grew by 3.9% per year on average, while the population grew by 1.9%. Offhand, this would seem to indicate that, even on a per capita basis, the increase in consumption was dramatic.

A breakdown of these figures, however, will show that the increase in consumption of cotton fibre (2.1%) was very similar to the population growth rate, while that of cellulosic artificial fibres was only slightly higher (2.3%); on the other hand, the share of synthetic fibres rose from 5% in 1960 to 35% in 1979.² The average annual increase in consumption of synthetic fibres fell from its extraordinarily high level of 21% between 1960 and 1970 to 9.5% for the period 1970-1978, but although cotton consumption rose significantly in absolute terms, its share of total fibre consumption fell from 68% in 1960 to 48% in 1979.

As might be expected, the fundamental reason for this persistently downward trend may be explained by the evolution of the relationship between prices of natural and synthetic fibres,

which has been particularly favourable to synthetics, especially since the 1970s. Table 2 shows, however, how the combined effect of the increase in oil prices and the drop in cotton prices has caused the situation to change again, from 1977 onwards, at least in the United States domestic market.

It is expected that in future, although this price ratio will continue to be a fundamental variable that must be taken into account, it will be more stable than it has been in the past and that the erosion of the competitiveness of cotton *vis-à-vis* synthetic fibres will be checked.

Even so, taking into account both structural factors (population growth rates, evolution of world demand for textiles, etc.) and elements of a more sectoral nature (increased synthetic fibre production capacity in the centrally planned and developing countries, evolution of relative prices, consumer preferences), the available projections all indicate that the share of cotton in world fibre consumption will still fall, albeit more gradually from its current level (48%) to 42%-45% in 1990.³

²See table 8. Textile fibres may be natural or artificial. The natural ones are plant fibres (cotton, jute, kenaf, sisal, hemp, henequen, etc.), animal fibres (wool, silk) and mineral fibres (asbestos). Artificial fibres are classified as cellulosic (rayon and acetate) and non-cellulosic; the latter include organic fibres (nylon, polyester, polyvinyl, and polyurethane) and inorganic fibres (glass or metal).

³For projections of world cotton consumption, see World Bank, *Price Prospects for Major Primary Commodities*, Washington, January 1980; and US Department of Agriculture, Foreign Agricultural Service, *World Cotton Production and Use: Projections for 1985 and 1990*, Washington, June 1979. See also World Bank, *International Cotton Market Prospects*, Staff Commodity Paper No. 2, Washington, June 1978.

Table 1
 PRODUCTION, CONSUMPTION, EXPORTS AND IMPORTS OF COTTON FIBRE BY MAJOR COUNTRIES AND REGIONS

(Thousands of 480-pound bales)

Region	Production				Consumption				Exports				Imports			
	1961		1980		1961		1980		1961		1980		1961		1980	
	Volume	%	Volume	%	Volume	%	Volume	%	Volume	%	Volume	%	Volume	%	Volume	%
Industrialized countries	14 350	32.3	11 865	18.1	18 924	40.7	13 354	20.3	6 727	39.1	6 401	32.2	10 667	60.4	7 861	39.5
(United States)	14 313	32.2	11 122	17.0	8 463	18.2	5 891	9.0	6 658	38.7	5 926	29.8	...	...	...	...
(Europe)	...	...	...	...	6 387	13.7	3 439	5.2	...	...	...	...	6 378	36.1	4 327	21.8
Developing countries	18 373	41.4	26 681	40.8	13 280	28.5	24 490	37.3	8 642	50.2	9 197	46.2	3 439	19.5	5 734	28.8
(Latin America)	6 029	13.6	7 594	11.6	2 893	6.2	4 720	7.2	3 472	20.2	3 005	15.1	223	1.3	357	1.8
(Brazil)	1 942	4.4	2 820	4.3	1 250	2.7	2 500	3.8	151	0.9	40	...	...	...	...	...
(Mexico)	1 979	4.5	1 595	2.4	400	0.9	760	1.2	347	2.0	820	4.1	...	...	...	...
Countries with centrally planned economies	11 691	26.3	26 797	40.9	14 313	30.8	27 886	42.5	1 851	10.8	4 300	21.6	3 568	20.2	6 579	33.1
(Soviet Union)	7 017	15.8	14 275	21.8	6 199	13.3	9 300	14.2	1 759	10.2	4 300	21.6	...	...	...	...
(China)	4 675	10.5	12 430	19.0	5 795	12.5	15 200	23.2	...	...	...	...	473	2.7	3 000 ^a	15.1
World Total	44 414	100.0	65 450	100.0	46 517	100.0	65 627	100.0	17 220	100.0	19 898	100.0	17 675	100.0	19 881	100.0

Source: International Cotton Advisory Committee.

^a Estimates.

Table 2
EVOLUTION OF THE RATIO BETWEEN COTTON FIBRE PRICES AND
POLYESTER PRICES IN THE UNITED STATES
1955-1981

Year	Cotton ^a (US cents per pound)	Polyester ^b (US cents per pound)	Cotton/ polyester (percentages)
1955	40	160	25
1960	39	126	31
1965	31	85	36
1970	31	41	76
1974	65	46	141
1976	76	53	143
1977	54	57	95
1979	69	60	115
1980	88	74	119
1981 ^c	89	85	105

Sources: US Department of Agriculture, *Cotton and wool: outlook and situation*.

^a Strict Middling 1-1/16" at mill in United States.

^b "1.5. denier" FOB United States mills.

^c January-July.

III

The international cotton fibre trade

The proportion of world cotton production that enters the circuits of international trade has fallen over the last two decades. Between 1961 and 1980, it fell from 59% to approximately 30%; of particular importance in this regard is the fact that countries such as Brazil and Peru and in particular China have assigned a growing proportion of their production (100% in the cases of Brazil and China) to the domestic market.

Since the absolute quantities of cotton exported throughout the world have grown at very slow rates (see table 1), most of the growth of textile demand has been in the trade of yarns and made-up articles. Suffice it to say that, in terms of value, the latter category represented less than

half of the total trade in fibre in 1961, whereas the opposite is now true: trade in made-up articles is more than double the world trade in fibres.

The export of textiles and made-up articles is one of the areas in which the success of the recently industrialized countries is most evident. This explains why, in 1980, the volume of cotton fibre imported by Hong Kong and Korea alone was equivalent to half that of all Western Europe.

As regards Latin America, its share in world cotton fibre exports, after having risen to 25%-30% in the late 1960s, fell both in absolute and in relative terms to the current level of three million bales, which is equivalent to only 15% of total world exports.

IV

Trends in prices

The price series presented herein were taken from the magazine *Cotton Outlook*, published in Liverpool. These figures, which are recognized throughout the world and accepted as reliable, refer to a grade with a high unit value (extra-long Egyptian cotton), one of medium value (Mexican cotton) and, finally, one with a rather low unit value (United States cotton) (see table 3).

The price series have been deflated by the CIF price index of exports of manufactures from the developed countries. These series make it possible to appreciate the problems created by the heavy fluctuations that have occurred in current and constant values.

At the same time, a long-term trend towards lower prices is to be observed. This was accentuated in 1981-1982 and has given rise to doubts about the prospects of cotton as an export crop capable of generating an appreciable amount of foreign exchange, especially in the Latin American countries.

Because there is a close relationship between export and domestic prices and because, in general, there are no price guarantee mechanisms, the erratic behaviour and the chronically low level of cotton prices have seriously reduced income from cotton production, to the extent that in many cases, when this has been possible, it has been replaced by other crops.

V

General characteristics of the cotton industry in Latin America

The organization of cotton production and marketing varies greatly from one area of the world to another, depending on how land ownership, production, credit, and domestic and external marketing systems are organized.

It appears that the increasing cost of inputs⁴ has brought about a concentration in the structure of ownership of cotton land at the world level. This is true of both the United States and most of the developing countries. In Latin America, over the last 20 years, the trend has been towards an increase in the average size of cotton production units, particularly in Mexico and Central America, where the decrease in the profitability of marginal land has apparently led to the expulsion of a large number of cotton grow-

ers. In addition, these changes may also be due in part to the availability of alternative food or non-food crops.⁵

In addition to the changes that have taken place over time, there are still traditional differences in the average size of cotton production units in the different countries. In Central America, this indicator ranges from a minimum of 24.5 ha in Costa Rica (1980) to a maximum of 439 ha in Guatemala (also 1980).⁶ These averages may, of course, conceal very different situations at the two extremes of the statistical sample. Thus, for example, although in 1978 the average size of a cotton farm in El Salvador was just over

⁴In this regard, see International Cotton Advisory Committee, *Survey of Costs of Production of Raw Cotton*, Washington, October 1981.

⁵In this regard, see ICAC, *Survey of Crops Competing with Cotton*, Washington, November 1979.

⁶See Permanent Secretariat of the General Treaty on Central American Economic Integration, *Situación actual y perspectivas del algodón y la semilla de algodón*, Guatemala, 1980.

Table 3
EVOLUTION OF COTTON PRICES

(US cents per kg)

Year	United States ^a		Egyptian ^b		Mexican ^c	
	Current dollars	Constant dollars at 1980 prices	Current dollars	Constant dollars at 1980 prices	Current dollars	Constant dollars at 1980 prices
1950	92.2	447.6		79.8	387.4	
1951	101.4	412.2	247.8	1 007.3	91.9	376.6
1952	95.5	379.0	187.8	745.2	95.2	377.8
1953	80.0	333.3	116.0	483.3	83.1	346.3
1954	82.9	351.3	129.0	546.6	85.8	363.6
1955	82.2	342.5	128.5	535.4	81.8	340.8
1956	64.4	261.8	161.6	656.9	74.3	302.0
1957	63.5	247.1	137.6	535.4	74.1	288.3
1958	67.5	249.1	93.7	345.8	70.8	261.3
1959	58.2	225.6	79.8	309.3	62.5	242.3
1960	59.7	226.1	108.0	409.1	65.5	248.1
1961	63.5	239.6	99.4	375.1	67.2	253.6
1962	63.1	240.8	92.4	352.7	65.0	248.1
1963	60.4	228.8	92.2	349.2	64.6	244.7
1964	59.5	222.0	108.0	403.0	65.0	242.5
1965	59.1	214.9	112.9	410.6	63.5	230.9
1966	56.4	200.7	110.2	392.2	62.2	221.4
1967	56.9	199.7	117.5	412.3	67.7	237.5
1968	62.2	233.0	129.4	484.6	68.6	256.9
1969	56.2	209.7	139.3	519.8	62.6	233.6
1970	60.4	203.4	138.0	464.7	67.7	228.0
1971	71.9	224.0	136.0	423.7	78.3	243.9
1972	75.8	214.7	143.5	406.5	82.7	234.3
1973	124.3	295.3	223.8	531.6	139.1	330.4
1974	130.1	249.2	338.6	648.7	145.9	279.5
1975	115.5	193.1	285.3	477.1	123.2	206.0
1976	162.0	266.5	300.9	494.9	174.8	287.5
1977	145.0	219.7	333.4	505.2	162.9	246.8
1978	138.9	177.9	295.6	378.5	160.7	205.8
1979	149.5	167.0	338.3	378.0	170.7	190.7
1980	187.2	187.2	337.9	337.9	207.1	207.1
1981 January-June	194.8		345.8		205.0	

Source: World Bank, *Commodity Trade and Price Trends*, Washington, 1981.

^a CIF Liverpool. For the period 1950-1956, prices are for middling 15/16" cotton; afterwards, for 1" middling cotton.

^b CIF Liverpool. For the period 1951-1962, prices are for Karnak fully good; after 1963, Menouh fully good.

^c St. middling 1-1/16" CIF Northern Europe. Before 1974, CIF Liverpool; 1955-1959, St. middling 1-1/2".

30 hectares, 27 farms (out of a total of 3 275) controlled one-fourth of all production, while in Guatemala, in 1979, 40 producers controlled slightly less than half the cultivated area.

As regards *forms of ownership*, private ownership is predominant in Latin America, with the notable exceptions of Nicaragua (where 15% of cotton land is nationalized), Mexico (where 50% consists of *ejidos*) and Peru (which has a strong co-operative sector).

Credit systems also vary very considerably, ranging from the cases of Brazil and Mexico (where more than 50% of production is financed with public credit) to the other extreme, in Guatemala (where slightly over 10% of production costs are financed by national, public and private banks).

Domestic marketing, another fundamental aspect of the cotton industry, has also followed very different patterns throughout the world and in Latin America.

In some countries of the region, the cotton market is regulated basically by the free play of supply and demand, as is the case in Guatemala and Paraguay. At the other extreme is Nicaragua, where cotton marketing has become a State monopoly. In between these cases are countries such as Peru and Ecuador, where price-support mechanisms are applied; or others, where co-operative marketing structures play an important role (Argentina, Brazil, El Salvador and Mexico), while finally there are countries where the State undertakes to purchase part of the crop (Peru and Mexico).

Another fundamental difference lies in the systems used in the different countries for *ginning operations*.⁷ There has been a trend towards concentration of ginning plants, and this has created idle capacity, especially in countries with a long-standing cotton-growing tradition.

⁷Ginning is the mechanical separation of fibre from the seeds. The cotton fibre is made into bales ready for export, while the seed is used in the preparation of edible oils.

In addition, whereas in some cases ginning operations involve public capital (Mexico, Nicaragua, Peru) or co-operatives (Argentina, Brazil, Mexico, El Salvador), in others (Guatemala and Paraguay) this process is a private-enterprise activity linked either backwards (to the sectors of production) or forwards (to the marketing sectors).

Finally, the differences with respect to the systems used for *external marketing* are also significant. Exporting enterprises of foreign origin (some of the most active in Latin America are Volkart, Esteve, Cargill, Continental, McFadden, Itoh and Bunge and Born) seem to be less important now at the global level, but they are still predominant in countries such as Paraguay and Mexico, or they at least maintain a strong presence, as in Argentina and Guatemala. In other situations, external marketing structures linked either to national private enterprise (Guatemala, Mexico), to national cotton co-operatives (Argentina, El Salvador) or the public sector (Peru, Mexico and Nicaragua) play a role whose importance varies from case to case.

In addition to playing a role as an exporting agent *per se*, the public sector indirectly influences cotton exports by establishing the legal framework within which these activities are carried out.

Thus, for example, Brazil so encouraged the export of yarns and made-up articles that it practically disappeared from the international cotton fibre market. Other countries have either refused to subsidize cotton fibre or in some cases have even imposed export taxes on it (see table 4).

Finally, all producer countries apply legal measures to protect local industry from imports of fibre. The few exceptions to this rule refer to special grades (extra-long staple for the textile industry in Argentina, Brazil or Mexico) or special situations (e.g., the quota of 20 000 tons granted by Argentina to Paraguay).

Table 4
SUMMARY OF LEGISLATION APPLICABLE TO THE EXPORT OF
COTTON IN LATIN AMERICA

Country	Taxes or obstacles to exports ^a	Export subsidies
Argentina	None	Special reimbursement (7%)
Colombia	None	CAT (15% of value)
Guatemala	0.075 quetzal/lb (1982)	None
Mexico	Mex. \$ 14/kg (1982)	None
Nicaragua	None	None
Paraguay	Between 4 and 5% (1982) <i>ad valorem</i>	Freedom to dispose of 50% of foreign exchange earnings
Peru	US\$ 18.48 per 46-kg quintal (1980/1981)	None

Source: ICAC, USDA and field surveys.

^a Legislation specifies in what currency the tax is to be paid and the year of application. In the case of variable taxes, the applicable level is based on a price of US\$ 0.70/lb.

VI

Individual country cases

1. Argentina

We shall begin our analysis of specific situations of fibre-exporting countries⁸ with Argentina, because it is a country in which cotton exports play a basically subsidiary role, inasmuch as domestic production is mainly directed at supplying the domestic market.

With total production estimated at 620 000 bales for the 1981/1982 season, Argentina ranks third among the cotton-producing countries of Latin America. Thus, it has managed to halt the gradual deterioration which had been taking place in its cotton production.

Both the volume of production and the volume of exports have fluctuated greatly, according to the ups and downs of the national textile industry, of international prices and, fun-

damentally, of the exchange situation. Exports, for example, have ranged from zero, or near zero, up to a maximum of over half a million bales during the 1979/1980 crop season (see table 5).

Although cotton plays a relatively minor role in Argentine agriculture as a whole, this is not the case in the provinces of Santa Fe and, in particular, El Chaco, where 23% and 58% respectively of national production are concentrated. In El Chaco, during the period 1974-1979, cotton represented between 45% and 65% of the agricultural GDP and between 10% and 15% of the total GDP.

Ownership of cotton farms is very scattered in Argentina and this has held back the modernization of the sector. According to figures referring only to the province of El Chaco, 70% of the cotton farmers had holdings of less than 20 hectares and 93% had less than 50 hectares in 1974. It is considered that a modern production unit should be at least 50 hectares in size.

⁸Brazil and Colombia have deliberately been excluded, as they mainly export textiles and made-up articles. The study of their cases would require a very different approach which would go beyond the scope of this article.

Table 5
 ARGENTINA: BASIC STATISTICS ON AREA SOWN, PRODUCTION, YIELD, DOMESTIC
 CONSUMPTION, EXPORTS AND IMPORTS OF COTTON FIBRE,
 1950/1951 TO 1980/1981

Year ^a	Area sown (thousands of hectares)	Production (thousands of bales)	Consumption (thousands of bales)	Exports (thousands of bales)	Imports (thousands of bales)	Yield (kg/ha)
1950/1951	461	471	445	274	12	222
1955/1956	533	563	523	2	10	230
1960/1961	418	569	502	66	29	296
1965/1966	443	530	515	34	71	260
1970/1971	367	385	480	209	37	229
1975/1976	433	611	533	393	15	307
1976/1977	543	740	540	348	12	247
1977/1978	621	1 015	480	427	38	356
1978/1979	702	800	505	321	37	248
1979/1980	585	670	470	543	22	247
1980/1981	343	380	380	157	60	241

Source: National Rural Economics and Sociology Service of the Ministry of Agriculture; International Cotton Advisory Committee.

^a Cotton-growing years, from 1 August to 31 July.

The predominance of small farms has led to the presence of intermediaries (*acopiadores*) between producers and gin operators, except in those cases where geographical proximity or a particular spirit of initiative on the part of either the producer or the processor made it possible to avoid this.

Thus, between 50% and 55% of production is channelled through *acopiadores*, while the rest is distributed between producer co-operatives⁹ (between 30% and 40%) and direct sales (the remaining 5% to 10%).

The aforementioned share of co-operatives in marketing is the result of a similar level of participation in ginning operations. The remainder is carried out by commercial companies which purchase raw cotton either from intermediaries or directly from farmers.

The cotton sector of Argentina is now going

through a serious crisis, largely because of the convergence of three highly negative factors: a) the international situation, which has caused cotton prices to fall; b) the heavy overvaluation of the Argentine currency from 1977 to 1981, which depressed the prices received at that time by farmers, and c) the extremely high level of bank interest rates during those same years. As a result of this situation, which is similar to that affecting other peripheral crops in the country, the cumulative debt backlog of the cotton sector of El Chaco in February 1982 was equivalent, according to official estimates, to the value of two complete harvests.¹⁰

The gradual devaluation of the Argentine peso which took place from 1981 onwards, as well as several other measures specifically directed at the cotton sector (special reimbursement arrangements for exports at a rate 7% higher than the official exchange rate¹¹ and the

⁹Most of these co-operatives were created during the 1930s and 1940s. They are currently going through a very critical stage, particularly because they are heavily indebted. The co-operatives only take part in marketing and ginning operations, with agricultural production as such remaining in private hands.

¹⁰See Ministerio de Economía de la Provincia del Chaco, *Análisis de la situación: Sector primario*, Resistencia, March 1982.

¹¹This measure replaced a previous one which had the opposite effect and which, along with other minor taxes, represented a levy of approximately 7.5% on cotton exports.

allocation of a special fund of 270 billion pesos to cover payments made to cotton farmers according to the area sown), undoubtedly helped alleviate the producers' situation. Nevertheless, according to official estimates, even with a government contribution of 900 000 pesos per hectare, receipts for the crop would only cover direct operating costs. As may be seen in table 6, even with yields of 1 300 kg per hectare of raw cotton—i.e., 430 kg/ha of fibre—the crop would bring losses if total production costs were considered; thus, far from being alleviated, the indebtedness situation has probably got worse.¹²

Let us now look beyond the current difficulties, however, and turn our attention to external marketing activities.

As has been mentioned above, the total volume of cotton exports has fluctuated sharply from one year to another, though always maintaining a secondary position with respect to production for the national textile industry. In any event appreciable quantities have been freed for export, and this activity brought in annual for-

eign exchange income of over US\$ 100 million on average for the years 1977-1980.

When the costs of ginning, freight, insurance and financial and other charges are deducted, and the exchange rate of the moment is taken into account, international prices also determine domestic prices.

Shipments are concentrated in the post-harvest months, i.e., between April and August, and are generally made by traders representing the large multinational companies (Bunge and Born, Cargill, Esteve, Cotton Roster) which have offices in Buenos Aires.

So far, efforts to use other channels for exports have not succeeded; among other alternatives, consideration has been given to the possibility of sending Argentine fibre to the Asian countries via the Chilean port of Antofagasta.¹³ Asia—particularly China, Taiwan, Japan and Hong Kong—currently receives more than 70% of Argentine cotton fibre exports, whereas in the late 1960s its share was not as high as that of the European countries.

In brief, the situation in Argentina is as follows: i) cotton exports play a secondary role with respect to domestic consumption; ii) the sector is going through a serious crisis, which gives rise to

¹²Of particular importance is the impact of labour costs, which may amount to 40% of total costs. In addition, little progress has been made in the process of mechanization, among other things because of the small average size of holdings. It is important, however, to bear in mind that this was the situation in mid-1982; the effect of any measures that may have been taken after that date is not yet known.

¹³There is a currently very under-utilized railway to this port.

Table 6
ARGENTINA: ESTIMATED PROFITABILITY PER HECTARE OF COTTON FOR
SEASON 1981/1982, FOR DIFFERENT YIELD LEVELS

(1 000 kg)	Yield (raw cotton)		
	1 000 kg/ha	1 200 kg/ha	1 300 kg/ha
Total cost	5 819 553	5 062 252	4 770 953
Operating costs	3 296 814	2 952 351	2 819 866
Current price	2 977 500	3 573 000	3 870 350
Current price plus fiscal contribution	3 877 500	4 473 000	4 770 350
Current price less total costs	-2 842 053	-2 246 553	-1 948 803
Current price less operating costs	-319 314	276 186	573 936
Current price less total costs, plus fiscal contribution	-1 942 053	-1 346 553	-1 048 803
Current price less operating costs, plus fiscal contribution	580 686	1 176 186	1 473 936

Source: Ministry of the Economy, El Chaco Province.

doubts about the viability of the crop over the medium and long terms, and iii) this situation, which is common to the country's other peripheral crops as well, can only be solved if the public sector, considering the enormous social significance of the crop in the provinces concerned, intensifies support measures.

2. Paraguay

The cotton situation in Paraguay is very different from that of Argentina. In Paraguay, cotton production grew very rapidly during the 1970s and this commodity became the country's major ex-

port, with a share of between 30% and 40%, i.e., the highest proportion of any Latin American country and one of the highest in the world.

As is shown in table 7, this increase was partly due to technical causes (the introduction of high-yield varieties, the use of modern inputs, etc.) and partly to what may be called social causes (increased ginning capacity, with the resulting breakdown of the former ginning "cartel"; increased monetarization of the rural economy, with the resulting increase in the value of cotton as a cash crop; introduction of new economic agents, especially new immigrants).

Table 7

PARAGUAY: BASIC STATISTICS ON AREA SOWN, PRODUCTION, YIELD, DOMESTIC CONSUMPTION, EXPORTS AND IMPORTS OF COTTON, 1965-1981

Year	Area sown (thousands of hectares)	Production (thousands of bales)	Yield (kg/ha)	Domestic consumption	Exports (thousands of bales)
1965	56.7	63.8	245	↑ between 4 000 and 5 000 tons ↓	49.6
1970	46.0	60.6	287		51.5
1971	33.2	26.8	176		13.3
1972	57.2	81.0	308		34.9
1973	81.1	130.6	351		85.4
1974	93.2	137.3	321		80.2
1975	100.0	152.5	332		121.8
1976	109.0	164.6	326		149.9
1977	200.2	348.1	378		270.1
1978	284.9	434.4	332		393.1
1979	312.5	359.1	250		352.2
1980	259.5	348.3	292		346.1
1981	302.9	484.9	348		416.0

Source: Ministry of Agriculture.

In terms of area sown, cotton is the most important crop of the country and has alternated in first place with maize. In geographical terms, the distribution of cotton production throughout the various regions is almost entirely in line with the density of the rural population. In terms of land tenure, it is estimated that there are around 80 000 cotton holdings in the country, with an average area of approximately four hectares.

Producers operate individually and sell their

crops to intermediaries (*acopiadores*) or subintermediaries (truck owners or local agents of medium-sized and large *acopiadores*). The *acopiadores* also often act as *de facto* representatives (although they do enjoy a certain degree of commercial and financial autonomy) of domestic or foreign gin operators or exporters.

As regards the internal organization of production and marketing, free enterprise structures are predominant. The public sector and co-operatives play only a minor role.

Moreover, the *acopiador* plays a very important role in Paraguayan cotton agriculture, often going beyond the strictly economic sphere. Producers are very dependent on *acopiadores*, who provide financing arrangements (personal loans, occasional assistance) on a purely informal basis, and who are perceived by the farmers as being the personification, at the local level, of the political authorities, regardless of whether or not the *acopiador* is formally invested with such authority by virtue of holding a post in the public administration or in the dominant party.

It is estimated that *acopiadores* obtain a net margin of between 5% and 15% of the FOB export price. This is an unusually high proportion compared with the rest of Latin America.

As has been mentioned above, co-operative structures are very deficient in Paraguay. There is a National Co-operative Centre, which offers credit and ginning facilities, but it controls no more than 1% of national production. However, the Ministry of Agriculture has tried to promote the creation of Producer Committees which, although lacking legal status, are organized to carry out joint sales of cotton, purchasing of inputs, etc. Another notable exception is that of the co-operatives run by the Mennonite communities in the north of the country.¹⁴

As regards the ginning stage, it is important to note that, contrary to what happens across the border in Argentina, this operation appears to be more closely linked to the final stages of the marketing process (i.e., sales to domestic industry or for export) than to production or internal marketing. Given the low level of domestic consumption (approximately 5% of total production), there is a very close *de facto* link between gin operators and exporters which is not evident in other Latin American countries; in these circumstances gin operators/exporters account for 10% to 20% of the FOB export price.

¹⁴These communities are made up of followers of a Protestant religious group founded in Germany in the nineteenth century. Since 1930, when the first groups of Mennonites arrived in Paraguay, they have grown cotton together with other products (dairy products, livestock, vegetables and peanuts). These groups account for around 2% of the total production of the country and are exceptional not only because of their co-operatives, but also because they strongly favour mechanization and 25% of their total harvesting is mechanized.

Almost all ginning-exporting enterprises are nationally owned, with the notable exceptions of CAPSA (*Compañía Algodonera Paraguaya S.A.*), which belongs to *Compañía Transnacional Continental*, and *Algodonera Guaraní*, which belongs to Esteve. These two firms control around one-third of ginning operations and exports. Ginning companies are also frequently involved in the oil industry, which uses cottonseed as its main raw material.

It is also worth mentioning the tax burden which, through a series of complicated taxes,¹⁵ accounts for between 4% and 5% of the FOB Asunción price. The effect of these taxes is limited by the fact that they are calculated on the basis of appraisals (*valores de aforo*) which have not been changed since 1976, and therefore, even with the current depressed prices, only represent around one-third of the FOB prices actually obtained.

Moreover, to palliate the negative effect of these anachronistic export taxes, exporters are allowed, under certain conditions, to dispose freely of 50% of the foreign exchange they obtain.¹⁶

Table 8 shows the different stages from production to hypothetical delivery at the port of Liverpool. A careful look at these figures will show to what extent Paraguay suffers the direct economic consequences of its being a landlocked country. Freight costs from Asunción to Buenos Aires, plus related expenses (lines 4, 5 and 6) account for more than 10% of the final CIF price. If to that is added the cost of freight from Buenos Aires to Liverpool, the final share will amount to 20%, which obviously increases the difference between the CIF Europe price and the FOB Asunción price.¹⁷

¹⁵These taxes vary according to the quality of the cotton exported. They consist of exchange taxes, customs duties, additional customs taxes, substitute income tax, official paper and stamps, port fees, fees for sanitary inspection and fees of the Cotton and Tobacco Control Bureau. Bank commissions and transport and dispatch costs, as well as dispatchers' commissions, must also be taken into account. The estimate of 4-5% of FOB value refers to the total amount of all these taxes plus export expenses.

¹⁶In April 1982, this was equivalent to a subsidy of around 15% of the FOB export price.

¹⁷In the cases of the other countries, this share rarely amounts to 8%.

Table 8
PARAGUAY: MAKEUP OF EXPORT COTTON PRICE, MARCH 1982

1.	CIF Liverpool price	US\$ ct./lb	61.8
2.	(Equivalent in US\$/ton)	US\$/ton	1 361.64
3.	Freight - Buenos Aires/Liverpool	US\$/ton	91.48
4.	River freight - Asunción/Buenos Aires	US\$/ton	32.55
5.	Transfer costs in Buenos Aires	US\$/ton	8.00
6.	Other costs (insurance, interest, commission)	US\$/ton	105.61
7.	FOB Asunción price	US\$ ct./lb	51.00
8.	(Equivalent in US\$/ton)	US\$/ton	1 124.00
9.	Exporter's income: 50% at 126 guaraníes	G/ton	70 834.76
10.	Exporter's income: 50% at 160 guaraníes	G/ton	89 948.90
11.	Total income	G/ton	160 783.66
12.	Discount for taxes, fees and export costs	G/ton	11 579.00
13.	Cost ex factory (i+L-M)	G/ton	149 204.66
14.	Costs and profits of ginning plant	G/ton	35 457.00
15.	Cost of raw material at ginning plant	G/ton	113 747.66
16.	(Equivalent per kg)	G/kg	113.75
17.	Cost of raw cotton at ginning plant (deducting value of seed and estimating yield at 34%)	G/kg	38.68
18.	Value of seed and linters (per kg of raw cotton)	G/kg	7.10
19.	Actual cost of raw cotton at factory	G/kg	45.78
20.	Tax, 1.5%	G/kg	0.69
21.	Transport, storage, handling and other costs	G/kg	2.81
22.	Discounts for humidity, quality, purity, etc.	G/kg	0.50
23.	Approximate margin of <i>acopiador</i>	G/kg	2.00
24.	Producer's price	G/kg	39.78

Source: Author's calculations based on data supplied by the Ministry of Industry and Trade.

Note: It is important not to be misled by the conversion from dollars to guaraníes (lines 8 and 9) or from tons to kilogrammes (lines 15 and 16).

Items 9 and 10 represent the two components of the exporter's gross income (depending on whether or not he is free to dispose of foreign exchange received), which is reflected on line 11. The cost of fibre leaving the ginning plant (line 13) is obtained by deducting taxes, fees and costs (line 12).

Line 14 shows the gross margin obtained by the processor-exporter, which, as may be seen, accounts for more than 20% of the FOB Asunción price. A preliminary estimate shows half this figure to be attributable to fixed and variable costs and the other half to profits. The remainder represents the basic cost of the fibre (not counting operating costs), which is reflected in lines 15 and 16 and is converted to the cost of raw cotton (line 17) by applying a conversion rate (see table 2) of 34%.

This value, plus the selling price of seed and

linters¹⁸ (line 18), gives the cost of raw cotton at the ginning plant. This is reflected on line 19. To obtain a fair market price for the product, it would still be necessary to deduct the ginning tax, transport, storage, classification and other costs, grade discounts and the approximate margin of the *acopiador*¹⁹ (items 20, 21, 22 and 23). The producer's price thus established (last line) amounts to 24.7% of the FOB export price, i.e., 20% of the final CIF price at European ports.

According to data compiled by the Central Bank of Paraguay,²⁰ cotton exports from Para-

¹⁸These products are residues of the ginning operation.

¹⁹These figures do not take into account the possibility of further sub-intermediaries being involved.

²⁰Central Bank of Paraguay, Department of Economic Studies, *Boletín Estadístico*, monthly publication.

guay go to different destinations from those of other Latin American countries, inasmuch as the share of Asian countries is much lower (only 10%), while sales to European countries are still large (over 75%).

As in the rest of Latin America, the situation with respect to cotton in Paraguay is not free of problems. It is our impression, however, that even though cotton production began relatively late, it is strongly entrenched in the economic and social life of the country and that further modernization of agricultural and commercial practices must necessarily be accompanied by improvement of conditions on the international market if the crop is to be made fully profitable.

3. Mexico

With a production of 1 375 000 bales in 1981, Mexico was the second largest cotton producer of Latin America, next to Brazil, and ranked ninth worldwide. During that same year, it exported 675 000 bales, thus consolidating its position as the largest exporter of the region.

Cotton has been grown in Mexico since the pre-Columbian period. It was traditionally

grown in the tropical areas, without irrigation, and then moved north (Sonora, Sinaloa, Baja California and La Laguna), as irrigation techniques developed in the United States were introduced. At present, 90% of Mexican cotton production is concentrated in the north of the country.

Cotton-growing boomed during the period 1953-1958, when 925 000 hectares were harvested and 435 000 tons of fibre were produced. Production then declined to the current level of 375 000 hectares and between 320 000 and 350 000 tons (see table 9).

Parallel to this, the share of cotton in total exports fell from around 25% in 1955 to the present figure of less than 2%.

In general terms, the role of cotton in the country's economy is similar in some ways to its role in Argentina. Production levels have tended to stagnate, the domestic textile industry is given priority over export activities, and the share of cotton in total exports is relatively low. Also as in Argentina, this apparent decline in the importance of cotton within the national economy contrasts with its great importance to the regional economies where it is concentrated, i.e., El Chaco

Table 9
MEXICO: AREA SOWN, PRODUCTION, YIELD AND DOMESTIC CONSUMPTION OF
COTTON, 1929-1981

Year or yearly average	Area sown (thousands of hectares)	Production (thousands of tons)	Yield (kg/ha)	Domestic consumption (percentage of total production)
1929	199	53	268	...
1935-1940	287	71	250	...
1940-1946	362	99	274	...
1947-1952	619	206	328	...
1953-1958	925	434	465	26.6
1959-1964	815	481	591	24.9
1965-1970	633	486	772	33.9
1971-1976	408	360	895	51.6
1977	420	418	997	56.4
1978	350	366	1 048	47.2
1979	377	356	940	46.1
1980	372	329	883	46.1
1981	375	348	980	52.4

Source: ECLA, *Monografía del algodón en México* (P.P.A/21/01), Mexico, 1978, and United States Department of Agriculture.

and Santa Fe, in Argentina, and the north and northwest, in Mexico.

An analysis of the social structures of cotton production shows the fundamental significance, as in the rest of Mexican agriculture, of the *ejido* system, i.e., the unique way in which agricultural co-operativism has been practiced in this country since the agrarian revolution.

While the *ejido* sector controls slightly less than half of both production and area sown, it receives most of the considerable resources (approximately 8 billion pesos) which the public sector, through the National Rural Credit Bank, has channelled to cotton producers.

Financing terms are favourable (rates lower than market rates, with ample opportunity for contracting credit insurance) and it may therefore be said that the strategy for supporting the cotton sector has been carried out through credit financing. In recent years, however, as policy has begun to be aimed at providing more massive support for the food sector, cotton producers have been faced with a situation in which they are at a relative disadvantage compared with other producers.

Also similar to the case of Argentina was the fact that the overvaluation of the national currency seriously eroded the profitability of cotton growing in 1981 and up to mid-1982, when devaluation took place.²¹

Since in general there are no guaranteed or support prices for cotton, domestic prices follow the trend of international prices. The product is usually sold through co-operatives or, in the case of larger holdings, by the individual producers themselves.

In very exceptional cases, the Federal Government intervenes, through ALGOCOMEX (*Algodonera Comercial Mexicana*, a public enterprise which normally operates on an equal footing with private firms), to protect producers, making massive purchases at prices higher than those prevailing on the market. This is what happened in 1974, when Mexico had a very large harvest (2 230 000 bales), which in turn was a result of the exceptionally high prices obtained during the previous season, when the government estab-

lished an intervention price of 500 pesos per 100 pounds (i.e., 40 US cents per pound), by virtue of which ALGOCOMEX purchased 45% of the crop, as compared with the usual 20% to 25%.

Also as in the case of Argentina, ginning is in some respects a collateral activity usually associated with the phases of production (ginning plants are owned either by co-operatives or by individuals) or of marketing.

In 1971, 21% of the installed ginning capacity belonged to co-operatives, 8% to the public sector and the remaining 71% was in the hands of large producers or commercial firms.²² This situation now seems to have changed in favour of co-operatives and the public sector.

It should also be noted that there is a State ginning tax of between 1% and 4% which can be financed by the Federal Government.

In Mexico there are a dozen large marketing firms which control around 80% of total cotton sales, for both the domestic and the export markets, and which also own a large part of the installed ginning capacity. Nine of these, representing almost 50% of total sales, are transnational (Esteve, Volkart, Hoenberg, Itoh, Allenberg, McFadden, Toyoshima and Anderson Clayton, in order of importance); two are private national firms (Longoria and *Algodones del Pacifico*) and one is public (ALGOCOMEX).²³

As might be expected, the transnational corporations are much more involved in foreign sales (69% in 1980) than in domestic sales (31%), while the opposite is true of the private national firms (13% compared with 40%) and ALGOCOMEX (18% compared with 29%).²⁴

During the 1930s, 1940s and 1950s, the local processing of raw materials in general, and of cotton in particular, became extremely important because of the import-substitution process that was taking place in Mexico. Thus fibre consumption increased, in both absolute and relative terms. During the 1960s, import substitution in the cotton textile industry practically stagnated,

²²See ECLA, *Monografía del algodón en México* (P.P.A/21/01), Mexico City, 1978.

²³Along with ENAL of Nicaragua and ENCI of Peru, ALGOCOMEX, is one of the few public cotton-marketing enterprises in Latin America.

²⁴See ECLA, *The Mexican cotton industry and the transnational cotton-marketing oligopoly*, Santiago, Chile, 1982.

²¹At the beginning of 1982, for example, domestic production costs were higher than international prices.

and this was the main reason for the loss of dynamism of domestic demand for cotton.

A second and scarcely less important factor was the rapid growth of synthetic fibre production in Mexico. It should be noted that both the availability of oil resources and the presence in Mexico of large petrochemical complexes, both domestic and foreign, undoubtedly accelerated this process. Thus, by 1979 consumption of synthetic fibre was higher than that of cotton, and indeed, the trend was more pronounced in Mexico than at the world level (see table 10).

Table 10
MEXICO: DEMAND FOR NATURAL
AND SYNTHETIC FIBRES,
1950-1979

(Percentages of total demand)^a

	1950	1960	1970	1979
Cotton	78.5	78.5	68.3	40.9
Wool	6.5	5.4	3.6	1.3
Cellulosic fibres	14.9	14.1	11.4	4.6
Synthetic fibres	10.8	2.3	16.6	53.1

Source: ECLA, *The Mexican cotton industry...*, *op. cit.*

^a Including imports.

The share of synthetic fibres in total textile demand is much higher in Mexico than in any other developing country²⁵ or even in the developed countries, where this indicator was between 30% and 40% at the end of the 1970s. The only consumption pattern similar to that of Mexico appears to be that of the United States, where in the late 1970s the share of synthetic fibres in total textile consumption was very similar to that of Mexico, i.e., 50%.²⁶

²⁵In 1979, this figure was 55% for Mexico, while for other countries it was as follows: Argentina, 19%; Venezuela, 33%; Brazil, 32%; Egypt, 18%; Colombia, 22%, and Peru, 29%.

²⁶In absolute figures, of course, per capita consumption of synthetic fibres was higher in the industrialized countries (between 4.5 and 9 kg per year in 1979, with the exception of the United States, where the indicator reached 15.4 kg) than in Mexico (3.4 kg). In the other developing countries, however, this figure was only around 0.8-1.4 kg per year.

Returning to the Mexican cotton industry proper, we now only need to analyse the situation with respect to exports.

In the first place, there is a flat-rate export tax of 1.28 peso per kg (or 2 US cents per pound) on fibre exported.

Also, in special cases, such as during the price bonanza of the 1973/1974 season, the Government requires exporters to register and to obtain an export license before they are allowed to sell abroad. The purpose of this measure is to ensure an adequate domestic supply.

As regards the destination of exports, sales are now highly concentrated in the Far East, which accounted for 80% in 1977 and 1978. In this regard, it is interesting to note that sales to Japan are nothing new for Mexico; the fact that Japanese trading firms set up offices in Mexico in the early postwar years has enhanced sales to that country.

Finally, in addition to fibre, Mexico also exports cotton yarn and fabrics, which add about 20% on top of the value of cotton fibre exports.

The situation of the cotton industry in Mexico may be summarized as follows: i) as in the case of Argentina, cotton exports are secondary to sales to the domestic textile industry; ii) even in the domestic textile industry, cotton fibre has to a great extent given way to synthetic fibres; iii) consequently, there is a structural crisis in the sector, as a result of which the area sown with cotton is now no more than 40% of what it was during the 1950s; iv) moreover, Mexico is suffering a conjunctural profitability crisis which, however, may have been partly solved with the recent devaluations; v) because of the importance of cotton in the areas where it is grown, it nevertheless has a definite future in Mexico, and the Federal Government will undoubtedly make every effort to protect it.

4. Guatemala

With a production of 618 000 bales in 1979/1980, Guatemala ranks first among the Central American cotton producing countries.

Cotton was introduced into the country rather late, but it is now firmly established; it accounts for 13% of exports and generates 20% of all employment (table 11 shows the evolution of basic cotton indicators in Guatemala).

Table 11
GUATEMALA: AREA SOWN, PRODUCTION, DOMESTIC CONSUMPTION AND
EXPORTS OF COTTON, 1955-1980

Year (1 August- 31 July)	Area sown (thousands of hectares)	Production (thousands of bales)	Domestic consumption (thousands of bales)	Exports (thousands of bales)	Yield (kg/ha)
1954/1955	16.0	41	20	21	556
1959/1960	17.6	68	20	48	838
1964/1965	90.0	310	30	280	747
1969/1970	75.6	245	38	205	703
1974/1975	111.0	485	55	473	947
1975/1976	83.5	443	55	449	1 150
1976/1977	99.1	615	50	542	1 346
1977/1978	127.2	653	50	620	1 113
1978/1979	125.7	725	55	707	1 252
1979/1980	126.0	618	50	645	1 063
1980/1981	101.0	575	35	505	1 240

Source: Central Bank of Guatemala and International Cotton Advisory Committee.

Land tenure is very concentrated in Guatemala; cotton holdings average 638 ha and 50% of this land is in the hands of 40 owners.

Furthermore, yields per hectare are very high in Guatemala, coming second only to Israel. However, a closer look at this phenomenon considerably dampens any optimism one might feel from looking at this single indicator, for it has been clearly shown that there is excessive application of insecticides (up to 40 applications, as compared with 0 to 5 in the rest of Latin America) and this, together with the use of other chemical inputs, causes frequently irreversible damage to the environment, affecting food, water, the fauna and the flora. In this regard, the studies carried out by the Central American Institute for Industrial Research and Technology (ICAITI)²⁷ are very interesting; in addition to criticizing the current situation, they propose alternative methods (natural pest control) which could minimize damage to the environment.

From another point of view, i.e., the strictly

economic one, many questions have been raised as to how rational it is to maintain the current level of use of chemical inputs, both for microeconomic reasons, i.e., high production costs (40% of gross value goes to the purchase of these inputs), and for macroeconomic reasons, i.e., the negative implications of the phenomenon for the net foreign exchange balance, since a great majority of these inputs are imported.

According to official figures, summarized below, for each dollar's worth of cotton exported in 1980/1981, there was a foreign-exchange outflow (essentially for chemical inputs and fuels) of 55.6 cents (see table 12).

Another distinctive feature of cotton production in Guatemala is the shortage of domestic credit; according to figures released by the Bank of Guatemala, such credit only covers 10% of the gross value of production. Thus, comparatively speaking, financial resources obtained from abroad play a more important role (between 20% and 40% of the total value of production between 1976 and 1980) and are used mainly for importing inputs.

Because of the large average size of cotton holdings in the country, marketing and ginning operations are usually carried out by the producer, who, when he does not have his own plant, hires the services of a ginning contractor. The

²⁷See ICAITI: *An Environmental and Economic Study of the Consequences of Pesticide Use in Central American Cotton Production*, Final Report, Guatemala, 1977; and, more recently, Ronald Estrada Hurtate (Consultant to ICAITI), *El algodón en su etapa de desastre*, Guatemala, April 1981.

Table 12
GUATEMALA: ESTIMATED NET EFFECT OF
COTTON EXPORTS ON THE BALANCE OF
PAYMENTS

	1979/1980		1980/1981	
	Thousands of quetzales	%	Thousands of quetzales	%
Gross income from exports	202 980	100.0	223 384	100.0
Foreign exchange outflow for inputs	84 124.1	41.4	124 201.5	55.6
Net effect on the balance of payments	118 855.9	58.6	99 182.5	44.4

Source: Bank of Guatemala, official estimates.

latter, who is usually linked to the oil industry or the export trade, generally receives, as payment for the processing, the seed obtained from this operation. Cottonseed meets 100% of the domestic demand for edible oils and its exportation is strictly prohibited.

Cotton producers and others involved in the cotton business deal with 14 "traders", almost all foreigners, who are able to intervene in the market because of the marketing lines they have abroad. These traders earn profits which are reported to be between 4% and 6% of the FOB price.

There are also several taxes,²⁸ which at the beginning of 1982 represented 2.5% of the FOB export price.

Guatemalan cotton exports go mainly to the Far East, although European countries still account for an appreciable percentage of sales, i.e., between 25% and 40% in recent years.

As in the case of most cotton-exporting countries, Guatemala is faced with serious problems relating to the profitability of the crop. This situation is aggravated, as has been noted above, by the high cost of imported inputs.

It is estimated that at the beginning of 1982, after the relevant deductions were made (1.25

cents for taxes, 2.5 cents for traders' profits, 2 cents for financial costs and around 5.25 cents for freight, insurance and other costs), a CIF price of 63 cents/pound left the producer-marketer a gross income of around 52 cents per pound.

At 1982 cost levels, which were around 60 cents per pound,²⁹ the crop would clearly be unprofitable. Only a devaluation, or freedom to dispose of foreign exchange on the parallel market, could solve the immediate problems of the cotton sector; even so, the longer-term structural problems mentioned above would still remain.

5. Nicaragua

After the sharp drop in both area sown and production which it had suffered in 1979, when it was torn by civil war, Nicaragua was able, in 1980-1981, to reach a production level of 345 000 bales and a slightly lower volume of exports. Even so, the recovery was not complete (see table 13).

The radical political change which took place in July 1979 had, of course, profound implications for the Nicaraguan economy as a whole, and the cotton sector was no exception. The full implications of these changes cannot yet be measured, since a debate is still going on in the country as to what the medium- and long-term characteristics of the sector should be.

For the time being, however, it should be noted that two measures have been taken which are of fundamental importance to the cotton sector: firstly, the nationalization of 15% of the current production area (which had belonged to persons prominent in the former régime and which is now part of the "Area of Public Ownership" (*Area de Propiedad del Pueblo* - APP); and secondly the creation of a State enterprise (the National Cotton Enterprise, *Empresa Nacional de Algodón* - ENAL) which has a monopoly on the domestic and external marketing of cotton.

Traditionally, the ownership of cotton land was in the hands of small and medium-sized farmers. In 1979, the average area of a cotton holding was 39 hectares, but the strata who owned between 70 and 350 hectares accounted

²⁸A progressive import duty, a municipal tax, a tax for the National Cotton Council (a public entity which advises the Government on matters pertaining to cotton) and a stamp tax.

²⁹Even higher estimates are given in Guatemala, but they have been disregarded here because they originate from interested circles within the trade.

Table 13
NICARAGUA: AREA SOWN, PRODUCTION, YIELD, DOMESTIC
CONSUMPTION AND EXPORTS OF COTTON FIBRE, 1960-1982

Year	Area sown (thousands of hectares)	Production (thousands of bales)	Yield (kg/per hectare)	Domestic consumption (thousands of bales)	Exports (thousands of bales)
1960/1961	57	155	577	5	115
1964/1965	135	570	920	12	571
1969/1970	109	313	625	19	253
1974/1975	179	560	678	22	608
1975/1976	144	505	760	23	522
1976/1977	199	545	593	26	539
1977/1978	219	560	555	15	525
1978/1979	173	515	647	5	535
1979/1980	38	100	574	13	100
1980/1981	94	345	794	20	300
1981/1982	97 ^a	340 ^a	759 ^a	...	...

Source: International Cotton Advisory Committee and Central Bank of Nicaragua.

^a Preliminary figures.

for a large proportion of the land (half the total area). The 1979 revolution did not change this situation, except for the fact that 15% of the cotton land has been turned over to the APP.

In Nicaragua, as in Guatemala, the increase in costs poses a very serious problem. This is particularly true with regard to the costs of imported inputs (from 15 to 20 applications of insecticides per year in some cases), which have reached the disturbing level of 43% of the FOB price.³⁰

As regards marketing, before the Revolution the system in Nicaragua was similar to that which exists in Paraguay. In other words, there was a large number of producers, State intervention was minimal, and commercial and financial intermediaries obtained large margins of profit.

Half the production of cotton was marketed without ginning, thus obliging producers to go through yet another intermediary. Purchasing agents of export companies, mostly foreign, often operated as an oligopoly, and producers had not alternative but to deal with them.

³⁰These figures were supplied by the Ministry of Planning, which breaks costs down as follows: 30% for wages, 18% for other components and 9% for freight, ginning and packing.

At present, with the nationalization of domestic and foreign trade, prices are set in a centralized manner. ENAL has also followed a policy of encouraging producers to carry out ginning operations on their own account, and prefers, except in exceptional cases (only 3% in 1981/1982) to buy cotton which has already been ginned and classified.

There are 26 ginning plants in the country and nine of these are in the hands of the State (not of ENAL, however), while the remainder belong to the major producers or to the oil industry.

Cottonseed had traditionally supplied 100% of the country's edible oil. In recent years, however, as a result of the drop in cotton production, it became necessary to import soya bean oil. The plan now is to develop national production of soya beans and African palm, thus substantially diversifying the sources of oilseeds.

During the 1981/1982 season, producers received a price of 840 córdobas per 100 pounds FOB Corinto (the country's port of export); this is equivalent to 84 US cents per pound at the official exchange rate of 10 córdobas per dollar. Discounts are made according to the grade of cotton and for domestic freight to the port, but there are no export taxes, although there is a

possibility that if international prices improve, some type of retention mechanism might be introduced for the purpose of building up a stabilization fund.

According to the Nicaraguan authorities, the price of 840 córdobas per 100 pounds represents a subsidy, inasmuch as, at the official exchange rate, cotton did not even reach a price of 70 US cents per pound CIF (i.e., 700 córdobas per 100 pounds), in 1982. In practice, the same authorities are very much aware that the official exchange rate does not at all reflect the current ratio between domestic and foreign prices. Moreover, there is a parallel exchange market which is tolerated by the Government and in which the price of the dollar is almost triple the official rate.

Given these circumstances, it is not surprising that producers complain that the current price is not profitable. According to estimates made in early 1982 by the Ministry of Foreign Trade, the 1981/1982 season will bring net losses to producers, even with costs at a very favourable level.

It would be too complicated to discuss in depth a subject which has political implications (the role of cotton growers in the previous and in the current régimes, and possible long-standing prejudices against cotton growing) which obviously go beyond the scope of this study.

We can only remark, as do some of the major sectors participating in the debate on economic policy that is currently going on in Nicaragua, that unless cotton production is made profitable,

it will simply tend to disappear from the country. Moreover, if cotton exports disappear or if they are greatly reduced, adequate substitutes must be found to make up for the negative effect which such a development might have on the balance of payments and consequently, on specific prospects for the economic development of the country.

Finally, reference should be made to the operation of the new export system. It would appear, at least as far as the destination of exports is concerned (a heavy concentration in the Asian countries), that the political change of 1979 has not greatly modified the previous situation.

Marketing practices, however, have undergone significant changes, as ENAL has encouraged the practice of selling directly to users. This has occurred in the cases of the Chinese State company "Chinatex" and the textile industry co-operatives of Taiwan, but this objective has not been achieved in the case of Japan, to which ENAL still sells its product through trading companies.

In short, it should be noted that: i) the recent political change has had implications for the cotton sector whose extent cannot yet be fully evaluated; ii) the level of production has fallen, although it is not very clear whether past levels will be recovered or not; iii) there is an immediate problem of profitability which is not very different from that of other Latin American countries and with regard to which the Government must take decisions in line with the role it wishes to assign to the cotton sector in future.

VII

Conclusions

In this article we have tried to analyse various aspects of the international trade in cotton, both globally and from the viewpoint of a more thorough analysis of the five major cotton fibre exporters of Latin America. Despite the demand and price problems being faced by cotton-producing countries, there is still no real international institutional machinery to protect the producer countries.

As is well known, there are two international organizations, namely, the International Cotton Advisory Committee (ICAC) and the International Institute for Cotton (IIC),³¹ but the scope of

³¹The ICAC, with headquarters in Washington, is a centre which evaluates and centralizes information on various aspects of cotton growing and the cotton trade. The IIC, on the other hand, with headquarters in Brussels, has a

their activities is limited to gathering information and promoting the use of cotton. Some time ago, a proposal was put forth for the creation of a new organization, the International Cotton Development Association (ICDA), under the auspices of the United Nations and the World Bank.³² This effort, however, did not bring any appreciable results.

Efforts aimed at the signing of an International Cotton Agreement within the scope of the UNCTAD Integrated Programme for Commodities have also been unsuccessful. Six preparatory meetings were held between 1977 and 1983,³³ but disagreements among participants (not only between consumers and producers, but also within the latter group) made it impossible to agree on any kind of practical measures. As a result of this, some of the producer countries decided to set up a Producers' Association, known as the Izmir Group. So far, its activities have been limited to the discussion of possible options for joint action.

With respect to the future, it is difficult to imagine that, if better times should come, this can be considered as being the fruit of international negotiations, at least as long as the United States remains reluctant to participate in any price protection mechanism.

Instead, any positive signs should be attributed to the attenuation of the recessive phase through which the world economy is going; to a subsequent improvement in the competitiveness

of cotton with respect to synthetic fibres; to the possible success of programmes for promoting the use of cotton at the world level and, as far as textiles and made-up articles are concerned, to the disappearance or substantial reduction of protectionist measures applied by importing countries.

Because of the lack of specialized international structures, the cotton-exporting developing countries must still cope, as in the past, with a situation which is fraught with difficulties. In many cases this had led to extreme situations where many have doubts about the future viability of cotton fibre as an export commodity capable of making a significant contribution to the external financing of the countries concerned.

In conclusion, the following approaches were perceived in the different countries of Latin America:

- i) to move out of the fibre market and direct the export potential of the country towards the production of yarn and made-up articles (Brazil and, to a lesser extent, Colombia);
- ii) to continue in the fibre market, but exercise pressure at the government level for the establishment of some international regulatory mechanism (Mexico and, to a lesser extent, Argentina);
- iii) to maintain the historical approach in the hope that an improvement in prices might make it possible to recover a satisfactory level of profitability for the crop (Guatemala and Paraguay).

It would seem that some type of subregional consultation mechanism where these different positions could be discussed would be helpful in the search for a solution to the problems which, as we have tried to point out, are to some extent shared by all the cotton-growing countries of Latin America.

limited membership (11) and devotes itself exclusively to promoting the use of cotton fibre in Western Europe and Japan.

³²See the proposal for the establishment of the ICDA prepared jointly by UNDP, the World Bank and the Rockefeller Foundation (New York, 1977).

³³See the entire series of documents (over 20) published by UNCTAD under the symbol TD/B/IPC/Cotton.

The global crisis of capitalism and its theoretical background

*Raúl Prebisch**

Central and peripheral capitalist countries alike are facing the present crisis without having discovered how to deal with the fundamental dilemmas of accumulation and distribution, which are clearly evidenced in the trend towards an imbalance between the growth rate of private and public expenditure and that of reproductive investment, and in the difficulty—especially acute in the periphery—of finding solutions for the problems of growth, employment, the external bottleneck and inflation. Experience shows, once again, that these problems will not be resolved by the application of monetarist or Keynesian criteria, which means that new principles of macroeconomic regulation must be established.

After putting forward this thesis in general terms (section I), the author turns his attention to the international propagation of inflation and the role played therein by the United States (section II), before going on to the core of his analysis, i.e., presenting the causes accounting for the aforesaid disequilibrium, which pivot upon the appropriation, retention and sharing-out of the surplus (section III). In the last part (section IV) he analyses the incidence of the crisis in the centres on the periphery and the specific nature of the prejudicial effects on the latter stemming from structural factors and from policy decisions, both external and internal.

The crisis is a matter of economic facts, of the ideas in the light of which attempts are made to interpret it, and of the policies that seek to cope with it; the periphery's only way out of it will be through an autonomous effort of intellectual reflection and of political action.

*Director, *CEPAL Review*.

I

Internal dynamic disequilibrium and inflation

We are witnessing a crisis which in its nature and its manifestations outdoes even the severity of that of the 1930s. It cannot, in my view, be explained in the light of theories which emerged in the centres over a century ago; neither those that exalt the virtues of capitalism nor those that condemn the system.

They are theories that have been left behind by events and likewise by the giant strides of scientific knowledge. Capitalism has evolved unceasingly and, as technical innovations develop and spread, great changes take place in the structure of society, accompanied by others of major significance in the power relations that so strongly influence the tempo of development and the social distribution of its fruits. To all this are added the increasingly notorious effects of the ambivalence of technique.

The anachronistic character of these theories is very serious both in itself and in its implications, since they are incapable of interpreting the facts and are counterproductive in their modes of action. Time and time again reality overbrims the narrow mould of concepts which seek to give it a purely economic cast, eliminating, by a sort of doctrinaire asepsis, social, cultural and political elements which form an integral part of it and which, together with technical and economic factors, are of growing importance in the structural mutations of society.

It is not surprising, therefore, that within these narrow bounds there is still talk of the general equilibrium towards which the system tends when it is not subjected to disturbing interventions. In other words, when the so-called magic of market laws is respected.

There is no such thing as a tendency towards general equilibrium. Quite the contrary: the evolution of the system makes for structural disequilibria of major significance, both in the centres and in the periphery, as well as in centre-periphery relations.

In the course of more than three decades I think I have got to the bottom of the explanation of this trend towards disequilibrium between the

centres and the Latin American region of the periphery. I have tried to demonstrate the serious theoretical errors stemming from the centres and from their mistaken attitude towards our phenomena. And I have likewise gone deeply into the tendencies towards internal disequilibrium within the periphery itself, whence new forms of inflation have been arising.

I have reached the conclusion that in the centres too the trend towards internal disequilibrium is becoming more and more marked: a disequilibrium between the growth rate of private and public expenditure and that of the reproductive investment which increases employment and productivity, and without which expenditure cannot evolve along progressive lines. From this imbalance also emanate the problems of inflation in the centres. Accordingly, to our peripheral countries can be ascribed the doubtful merit of having been the forerunners of this inflation deriving from dynamic disequilibrium.

Be that as it may, it is a matter for consternation that the weapon consistently used to attack these problems should be the monetary instrument. Highly efficacious in the past as a means of correcting the inflationary deviations of the system, it has now become counterproductive in face of the new social forces that are accompanying structural change. The question is no longer one of deviations, but of a struggle for redistribution in which the aim of the labour force—if I may be allowed to use this concept in a very broad sense—is to increase its participation in the growing productivity of the system, both directly, and through the social services provided by the State. Moreover, the tendency of the State is to share out the productivity increment more and more.

Thus consumer expenditure is continually mounting. To the conspicuous consumption of the social strata advantaged by their disproportionate share in the fruits of technical progress, are added not only the growing consumption of private and social goods and services on the part of the labour force, but also State spending, both civil and military. However, the different forms of expenditure do not show increases in some cases to the detriment of others, but are superimposed upon one another. And inevitably their rate of growth tends to outstrip that of reproductive capital accumulation.

Given the prevailing system, the monetarist instrument is the only one available to attack the inflation deriving from this dynamic disequilibrium. But it is no longer a fitting one; and the consequences of its application are disastrous. The facts suffice to testify that the social cost is enormous. Yet recognition of the impossibility of combating this new form of inflation with monetary regulation is slow to dawn. Some other kind of macroeconomic regulation is imperatively required to correct the tendency towards dynamic disequilibrium, both in the centres and in the periphery.

The concept of economic equilibrium is totally out of touch with reality, inasmuch as it overlooks the structural phenomenon of the economic surplus. I maintain that however fully the rule of free market competition be observed, only part of the productivity increment attributable to technical progress is transferred to the labour force, while the rest is appropriated and retained as an economic surplus by the holders of the means of production, especially the upper strata of society where those means are concentrated.

The economic surplus plays a vital role in the dynamics of the system, since it is the primordial source of reproductive investment such as multiplies employment and productivity and continuously augments the surplus itself. But it is also a source of considerable expansion of the consumption of the upper strata, increasingly stimulated by the techniques for the diversification of goods and services which, it is true, also tend to step up the consumption of the lower strata as the productivity of the system makes progress.

During the past history of capitalism, it has been possible for the upper strata to appropriate the surplus by virtue of the passiveness of the labour force and the *laissez-faire* attitude of the State.

The surplus is a historical category which is based essentially on social inequality; it corresponds to a specific power structure. In the course of structural change the labour force progressively, although very unequally, develops its trade-union and political power, and struggles to obtain a larger share in the productivity increment; the State does the same, in order to cover both its increasing social expenditure on behalf of the labour force and the outlays deriving from

its own dynamics, which, in their turn, reflect the changes that have occurred in the power structure.

In so far as the State, in order to cover the social services referred to as well as the expansion of other expenditure, resorts to taxation of which the burden has to be borne by the labour force, the latter tries to recoup itself by means of wage increases. This tends to push wages up faster than productivity rises, thus weakening the growth rate of the surplus and therefore that of capital accumulation.

Some of the taxes also fall on the surplus and adversely affect the development of reproductive investment and, consequently, of productivity, at least as long as State investment and expenditure do not help to improve matters.

Thus, as the passiveness of the labour force and the *laissez-faire* policy of the State are modified, the tendency for wages to increase faster than productivity and the slackening of the latter's rate of growth bring consequences in their train that are more and more disturbing, given the nature of the system.

Every rise in wages has the twofold effect of raising costs and boosting demand in such a way that the higher costs can be transferred to prices in so far as the rate of increase of wages rise outstrips that of productivity. And hard upon this rise in prices follows a fresh wage increase, if the labour force has enough power to obtain it. This is the origin of the inflationary spiral, deriving from the pressure of costs and intensified by the upswing in rates of interest that succeeds the rise in prices.

The upward movement of prices is really due to the endeavours of enterprises to defend the appropriation and retention of the surplus. And there is no spontaneous mechanism whatsoever whereby the increase in costs can be absorbed at the expense of the consumption of the groups benefitting by the surplus so as not to weaken the rate of accumulation. That is not how the system functions. It tries to protect the appropriation of the surplus by the groups in question where both their consumption and their investment are concerned.

It should be taken into account, however, that if the real remunerations of the labour force are improved a portion of them may be used for accumulation, thus offsetting, to some extent at

least, the weakening of capital accumulation on the part of enterprises. But neither is there any mechanism that spontaneously leads to this sort of compensation. What is of essential interest to enterprises is to defend the surplus and use it freely for their own investment rather than to let it be drawn upon for accumulation by the labour force. The same might be said of accumulation by the State.

It is not so much a question of resolving the technical problem of accumulation in order to promote the dynamics of the system, as of preserving the appropriation of a large proportion of the fruits of technical progress by the owners of the means of production. The system's need to speed up the rate of accumulation in order to increase employment does not represent a responsibility intrinsically incumbent upon the social groups that appropriate the surplus. It is other elements that determine the rate of accumulation, and above all a factor of a cultural nature: the degree of austerity of these social groups, or, in other words, their resistance against the pertinacious incitement to consumption, spurred by the ever-increasing diversification of goods and services. Whatever degree of austerity may have been practised in the historical development of capitalism, it must be acknowledged that this is not a characteristic of peripheral capitalism.

Let us now revert to the defence of the surplus through price increases, which causes inflation to spiral when the labour force is no longer passive and the monetary authority allows the necessary creation of money. The growing distortions which accompany this amplification of the spiral sooner or later induce the monetary authority to restrict credit. The consequences are common knowledge: a decline or contraction of the growth rate together with tighter and tighter compression of the surplus and a slump in employment.

It is precisely in the decrease in employment that the key to this monetary policy lies. For sooner or later it leads the labour force to accept a deterioration of its real remunerations until the wage squeeze permits of a new increase in the surplus and in its dynamic role, as well as in the consumption of the advantaged social groups.

Furthermore, a rise in interest rates accentuated by a restrictive monetary policy, implies a

substantial transfer of real income from productive activity (surplus and remuneration of labour force) to financial activity, and slows down the tempo of economic activity, which then contracts.

Such, in a few words, is the way in which a notable success in curbing inflation has been scored, first of all in the main dynamic centre of capitalism. In a recent commentary on this fact, *The Economist*¹ noted that this result had been achieved by squeezing real wages in order to increase the profits of enterprises (i.e., to reestablish the surplus). A very laudable thesis, according to the periodical—which has gained a wide circulation both in the centres and in the periphery, and which supports monetary policy as a means of combating inflation. Here are the terms in which its remarks are couched:

"Falling real wages, like falling oil prices, are correcting an imbalance that has harmed the world economy for 10 years. Too-dear oil and too-dear labour both helped to cause stagflation. Their demise could herald a new age of low unemployment and low inflation, especially if too-dear money also ended. When that happens, the world will enjoy many happy New Years."

The economic and social cost of a restrictive monetary policy is tremendous, as we have already pointed out. But according to its defenders, this is a cost that has to be incurred in order to restore the system to health: i.e., in order to correct what they consider excesses brought about by the exaggerated claims of the trade unions, as well as by the increasing social benefits that contribute to the hypertrophy of what is no longer a *laissez-faire* State. In fact, the neoclassical economists generally accept with resignation (and not without a measure of complacency in some cases) the economic and social cost in question for the sake of remedying the consequences of the violation of market laws by the labour force, as well as by abusive exercise of the power of State.

Violation of market laws, because, according to the neoclassical theories, if the market is allowed to operate freely, with no interference whatsoever, the economic system will tend towards equilibrium. And given this equilibrium, workers, entrepreneurs and capital will be re-

munerated in accordance with their contribution to the production process. Whence derives a conclusion of supreme importance in neoclassical theory (although it is not usually explicitly stated): the free play of market forces disseminates throughout society the fruits of technical progress which find expression in the steadily rising productivity of the system, when this is left to its own devices.

These arguments, of course, disregard the structural phenomenon of the surplus; not only does accumulation increase, but so does the privileged consumption of the social groups that benefit by technical progress. It is precisely this manifest inequality in consumption that causes the twofold pressure for redistribution exerted by the labour force and the State. Only the system, given its *modus operandi*, precludes efficacious fulfilment of the design of equitable distribution.

Let some thought be given to the significance of these facts. The labour force finds itself compelled to accept a compression of its real wages so that the system may recover its capacity for accumulation. And for that to happen, unemployment must increase. Can it be supposed that if a reactivation of the economy and a rise in employment levels occurs, the labour force will meekly renounce its aspirations in favour of accumulation and more lavish consumption on the part of the advantaged strata? Or will it be necessary to recognize that the system, in the present structural phase, is continually exposed to inflationary pressure, which weakens with unemployment and recrudesces with the reactivation of the economy?

There is nothing surprising, then, in the peculiar thesis of those who maintain that the regular operation of the system entails a certain coefficient of unemployment in order to moderate wage demands.

I believe I have reached a clear and categorical conclusion. It is not feasible to seek the social betterment of the less favoured groups through wage increases that raise the enterprises' production costs. A historical phase in the evolution of capitalism is coming to an end without a solution's having been found for the fundamental problem of synchronizing distribution of the fruits of technical progress and accumulation of reproductive capital.

¹24 December 1983.

Moreover, to dream of resolving it by market laws would be a fatal illusion. The market, in so far as it operates correctly, is efficacious from the economic standpoint. But its social efficiency is partial and limited and so is its ecological efficacy. It is not the market in itself that should concern us, but the underlying structure of society and the power relations inherent therein, as well as the ambivalence of technique. Nor must we labour under the delusion—much more dangerous still—that the abolition of the market will resolve these and other problems, since that would invest those who manage the system from the summit with a power which, besides jeopardizing the system's efficiency, would prove incompatible with the progressive democratization of society.

In face of the trend towards dynamic disequilibrium which is so strikingly evidenced in the fiscal deficit, an attitude observable today, both in the United States and in the European countries that gave most impetus to the Welfare State, is concern for the containment of social services (besides what obviously relates to military expenditure). Of course I do not believe that the considerable human welfare potential that technical progress has brought in its train is exhausted. But a radical rectification of the trend towards dynamic disequilibrium is necessary, since if it were corrected it would be possible to realize the system's considerable potential for social betterment.

To this propensity to dynamic disequilibrium are added the adverse consequences of irresponsible exploitation of non-renewable natural resources, and other serious ecological repercussions. To prevent or counteract these effects it is essential to increase the amount of capital per unit of output in order to reestablish the rate of increase of productivity. Accordingly, this rate is unfavourably affected not only by a falling-off in the intensity of accumulation, but also by the need to make technical progress ecologically sound.

Perhaps it may seem strange to lay so much stress on the trend towards dynamic disequilibrium between expenditure and accumulation when it is recalled that half a century ago Keynes asserted that the operation of the system tended to engender over-saving. His vigorous imagination led him to suggest that the building of the

pyramids of Egypt might have been, up to a point, a consequence of over-saving, which meant that the superfluity had to be invested in that way. Lively imagination and literacy polish too, such as used to be found in the great classics, in contrast with the heavy and muddled style that characterizes many of our economists. Keynes, then, largely attributed the depression of the 1930s to this phenomenon of over-saving, which, in my opinion, was no such thing, but a cyclical maladjustment. Be that as it may, Keynes' concept led many of his followers to ascribe unemployment to a shortage of demand caused by over-saving. It was not granted to the eminent economist to foretell the trend towards structural disequilibrium between the rate of expenditure and that of capital accumulation—a disequilibrium in which an insufficiency rather than a superabundance of saving has been apparent.

It is worth while to pause a moment here. When unemployment is cyclical the Keynesian expansion of demand is advisable, within certain limits; but when it derives from the aforesaid structural disequilibrium between the rates of expenditure and of accumulation such expansion would help to intensify the inflation caused by the disequilibrium in question. And when it is sought to combat inflation with monetarism, the effects are counterproductive, as was pointed out above. In face of inflation and structural unemployment, neither monetarism nor Keynesianism will do. Other modes of regulation become essential.

The explanatory accounts of the trend towards dynamic disequilibrium and of its inflationary effects that I am presenting in this first section originally related to peripheral capitalism. But, as I have already said, observation of facts has convinced me that these phenomena are also common to the centres, which should hardly be surprising, inasmuch as the periphery has copied from them the process of appropriation of the fruits of technical progress. The only difference is that in the periphery the trend towards dynamic disequilibrium is much more marked, owing to the specificity of its capitalism, which largely stems from the historical time-lag in its development.

In any event, I felt it desirable to restate my interpretation of these phenomena as published

in various articles in this *Review* and in my book on peripheral capitalism.² The criticisms I have received and the evolution of my own thinking have, I believe, enabled me to work out a clearer

and more accurate presentation, which I shall set forth below (section III), at the risk of inevitable redundancies.

II

International propagation of inflation

Let me dwell first on a few considerations relevant to the international propagation of inflation. I believe that to a large extent this phenomenon is a general consequence of capitalist development, but I do not doubt that inflation in the United States—the system's main dynamic centre—has given great impetus to such propagation, both because of its importance in the economy and because of the twofold role as national and as international currency which the dollar has acquired.

This role as an international currency carries with it the great privilege of creating money and utilizing it free of cost, and, at the same time, the enormous responsibility of ensuring that its creation is consonant with the requirements of world development.

The dominant factor in the creation of money, however, has been, on the contrary, the United States' internal inflation. Inflation has spilled over on to the rest of the world.

And just as it contributed to the great development euphoria in days that are now receding farther and farther into the past, the United States' current policy of containing inflation by means of extremely high rates of interest has brought about a worldwide economic contraction, which in the periphery accentuates the gravity of its own problems. The abundant creation of inflationary dollars at the international level is therefore being followed by a movement of deflationary return of those dollars to the United States, in response to the attraction of the rates of interest aforesaid.

In its early days, up to the mid-1960s, inflation was relatively moderate, but later the excep-

tional growth of both social and military expenditure, as from President Johnson's term in office, gave great impetus to the spiral, until the rise in petroleum prices (beginning in 1973) stepped it up to unusual proportions. It is often said that the upswing of oil prices was the determinant of inflation, with no memory of the fact that convertibility had been abandoned years before in consequence of the inflation that was developing.

The inflationary expansion of demand in the United States, as well as its investment abroad, could be partly met with the product of the rest of the world, especially in times of overvaluation of the currency. The said capital investments, particularly in Europe, helped to mitigate technological backwardness and to bring about an exceptional increase in productivity and rates of growth.

The inflow of dollars would have caused a dangerous secondary accentuation of inflation if the countries concerned had not decided to deposit a large proportion of these resources in the Eurodollar market. This market was considerably enlarged by substantial deposits of financial surpluses from oil. It was a favourable moment for tapping an appreciable share of these resources by the sale of long-term securities and by issuing loans, above all to developing countries. This would have been an advantageous way of procuring a three-cornered reversion of these resources; originating in the major consumer centres, mainly in the United States, they would have returned there if long-term loans had been made to developing countries, which, in their turn, would have used them to purchase capital goods from the centres in question.³

²*Capitalismo periférico. Crisis y transformación*, Mexico City, Fondo de Cultura Económica, 1981.

³This is not an *a posteriori* reflection. On the contrary, I had an opportunity to put this idea before the Secretary-

Events are showing, however, that private financial interests have outweighed sound long-term considerations. The international banks in which the funds deriving from petroleum (as well as those originating elsewhere) were deposited gave great impetus to operations consisting in short-term loans granted mainly to developing countries and to some of the socialist countries. It was not only such resources that were involved, but also the inflationary multiplication of money which was added to the dollars flowing from inflation in the United States. For every dollar that reached the Eurocurrency market, the international private banks created several additional dollars by expanding their credit, and thus aggravated inflationary pressures.

These operations were subject to no regulation whatever at the international level: a point worth recalling now that the entire world is suffering their consequences. It was some time since long experience had led to the regulation of internal creation of money (although it gradually lost efficacy, as was remarked in the foregoing section). Yet the international operations of private banks were conducted without regulation of any kind, under the sole guidance of the profit incentive, and brought in very substantial gains.

The lust for profit took precedence over elementary considerations of foresight and responsibility. And the borrower countries ran into debt without much thought for the future. There was, in short, a convergence of irresponsibilities. In some cases, short- and medium-term loans were spent on investments that ought rather to have been made on a long-term basis. And in others, they helped to pay the higher petroleum prices or to defray the cost of excessive consumer imports encouraged by internal measures; or they were used to cover military expenditure. What is more, some Latin American countries that obtained plentiful resources from their petroleum sales also engaged in a drive to over-accelerate their investments and their rate of development by means of loans of this kind.

General of the United Nations when he asked me to undertake an emergency operation to combat critical situations in developing countries currently affected by the rise in petroleum prices. The Secretary-General submitted my proposition to the General Assembly.

As usually happens in the event of such abuses, theoretical justifications were by no means lacking: international market forces had to be left to operate without restriction. The free play of market forces would entail the most advantageous allocation of resources. The private banks would be more efficient in this respect than the official international credit institutions; and thus they came to acquire the lion's share of world financing.

I spoke earlier of the deflationary return to the United States of some of the dollars previously poured out on the world by the spill-over of inflation. This return, as is common knowledge, is due to the exceptional upswing in rates of interest. It is worth while to dwell for a moment on this singularly important phenomenon.

Inflation deriving from the fiscal deficit, as well as from the distribution struggle, is yet another manifestation of the trend towards disequilibrium between expenditure and reproductive capital accumulation. The two processes feed each other. As regards inflation of fiscal origin, rather than introducing appropriate adjustments in expenditure and taxation, preference was given to attracting saving to the State in order to cover the deficit.

It is true that because of the nature of the system increased taxation would also have had an inflationary impact, for the reasons set forth in section 1. And an appropriate income policy would have been required to moderate its effects. In any event, allocating a considerable proportion of saving to covering the deficit had much the same sort of adverse influence on capital accumulation and productivity as taxes would have exerted on the surplus. Moreover, the rise in rates of interest on saving was accompanied by a restriction of credit and an increase in bank interest rates so as to prevent an inflationary transfer of resources to the financial market. The adverse effects of credit restriction are common knowledge. They were not confined to the United States, inasmuch as the high interest rates—as has already been pointed out—caused a return of dollars, raising the cost of money and resulting in world deflation. Thus the return of dollars to their original source brought very serious problems to the countries concerned, compelling them to carry their own restrictive measures to extremes.

A distinction should be drawn between the international propagation first of inflation and then of deflation, and the internal inflationary phenomena explained in section I. International inflation has helped to aggravate these. The same thing is true of the periphery, whose own problems have been seriously complicated as a result of the international monetary vicissitudes.

All this involves a high level of unemployment everywhere with a colossal waste of development potential. If these adverse consequences and their social incidence are compared with the euphoria of the years of prosperity, it may well be asked whether, in the long run, slower and steadier growth would not have been preferable to exceptional rates of development followed by a slump in the tempo.

This question strikes, of course, right to the heart of the matter, i.e., to the very process of appropriation and distribution of the fruits of technical progress, as well as the accumulation of

reproductive capital. This is the fundamental problem that must be resolved in face of the irremediable dissolution of a historical category of capitalist development, whose positive results cannot be denied, notwithstanding the serious disturbances that were being hatched in the evolution of the structure of society.

Lastly, international monetary reform is being discussed, and the periphery has not been indifferent to the proposition. Bretton Woods has been left behind by events. But it is also advisable to query whether an international reform could be efficacious and lasting if the large countries did not undertake a process of internal change of their own in order to correct their tendency towards dynamic disequilibrium between expenditure and reproductive capital accumulation. If this tendency is not rectified in time and continues to be a source of inflation, phenomena may occur that are incompatible with the disciplined creation of money to meet the real needs of the international economy.

III

The appropriation and retention of the fruits of technical progress and the distribution struggle

Since in section I we attached so much importance to the structural phenomenon of the surplus, the time has now come to explain, firstly how it comes about, next how it is retained, and lastly how the social struggle to share in the fruits of technical progress triggers the trend towards dynamic disequilibrium between the rate of expenditure and that of reproductive capital accumulation. This trend inevitably leads to inflation and cannot be contained by means of the monetary instrument without that huge economic and social cost on which at the due moment we laid stress.

Let us begin, then, with a simple schematic explanation of the economic surplus. The surplus is closely linked to technical progress, which finds expression, thanks to capital accumulation, in a continuous superimposition of new technical layers of increasing productivity on technical

layers in which productivity is less. This is a process which is incessantly renewed.

It happens that when a technical layer is added in which productivity is higher than in those preceding it, the wages and salaries of the labour force thus employed do not improve correlatively with the increment in productivity. Within the play of market laws, an improvement will be obtained only by that part of the labour force which, at all levels, possesses the increasing skills that technical progress demands. The productivity increment is the result of these skills plus capital accumulation in which technological innovations take shape. The wages of the rest of the labour force employed in new technical layers do not increase correlatively with productivity for a very simple reason: competition on the part of the manpower which is left behind in lower-productivity layers where income is less,

and of the labour force entering the market in consequence of population growth. This competition prevents wages from rising in keeping with the increased productivity of the new technical layer.

I have applied the term surplus to the productivity increment which, not being transferred to the labour force, remains in enterprises and corresponds to the means of production. A clear distinction must be drawn between the surplus and the remuneration of those who organize and direct productive activity, whether they are the owners of the means of production or not.

The surplus has its origin, then, in structural heterogeneity, that is, in the diversity of technical layers, productivity and payment of the labour force. It is conceivable that capital accumulation and the skills needed to meet its requirements may tend to lead progressively to homogeneity, with similar levels of productivity, and equal pay for equal skills. In that case the surplus would peter out, as would likewise its dynamic role in accumulation, and other forms of capital accumulation would have to be put in its place. In any event, the process would be a relatively slow one, to which a threat would be constituted by the incessant diversification of goods and services which militates against reproductive capital accumulation, as well as by population growth, especially in the periphery.

Meanwhile, the redistributive power of the labour force and of the State gradually achieves what market laws are slow to accomplish. And as redistribution takes place, the expansion of expenditure which it involves is added to the ever-increasing expenditure of the social groups benefiting by the surplus. Thus the system tends towards that dynamic disequilibrium between the rate of expenditure and that of reproductive capital accumulation which was mentioned in section I.

This tendency towards disequilibrium cannot be explained, however, without showing—likewise briefly—how the surplus is retained in enterprises, instead of being socially disseminated as the neoclassical theories assume; and how in the course of the structural changes in society the redistributive power of the labour force and of the State weakens the growth rate of the surplus, to the detriment of the rate of reproductive capital accumulation.

My interpretation is based on study of the dynamics of the production process and the various phases that occur during the time it takes, from the primary phase to the stage when the final goods (both consumer and capital goods, between which there is no difference where the production process as such is concerned) are launched on the market.

This introduction of the time factor is essential, as is likewise the growth of production. Otherwise it would be impossible to explain how the increment in productivity which has been achieved in the various phases can be absorbed without a fall in prices. For if enterprises do not transfer the whole of the productivity increment to wages, the demand stemming from what they pay out will be insufficient in relation to the increase in productivity.

Herein lies the significance of the time factor in the dynamics of the production process. In order to understand it, the various phases of production under way must be clearly distinguished from the final stage of output of end goods. Demand for the latter does not derive from the income that the enterprises have paid out formerly in the course of their production but from the income they are paying out during the process of producing new final goods which will be put on the market later on.

Such, in the dynamics of production, is the effect of the time factor. Because of it, the amount of goods in process of production, during a given period of time, is larger than the quantity of final goods in the same period. In other words, final goods lag behind current production. Thus, the increase in final goods in any period in relation to the one before it could not be absorbed without the expansion of demand deriving from the income paid out by enterprises in the course of the production under way between those same periods.

The additional amount of final goods results both from the increase in employment and the rise in productivity. And if demand expands enough, the productivity increment stays in the enterprises in the form of a larger surplus (or an increase in profits, in a first approximation).

It should be explained that this larger surplus is not all obtained when the final goods are sold on the market, but step by step appears in advance in each phase of the production process,

in accordance with the demand expected by the enterprises concerned. Thus partial surpluses emerge. If demand for final goods is sufficient and confirms the expectations entertained, the same rate of demand can continue for the whole of the production under way. Otherwise, adjustments in one or other direction will supervene, according to whether demand for final goods does or does not expand sufficiently to absorb the increase in these.

We are now in a position to introduce the creation of money into our argument. We were saying that the income paid out in the course of production generated the demand for final goods. If this demand is sufficient enterprises in the final phase recover the income they paid out in due course and obtain their partial surplus. If production were *static*, the money thus obtained by the said enterprises would suffice for the purchase of goods in process in the preceding phase and payment of their own labour force. And the same thing would happen in every phase. On the contrary, in the course of *increasing* production the money obtained by enterprises in the various phases would not be enough to step up their own employment and the purchase of goods in process of production in the preceding phase, the corresponding partial surplus included.

Thus, as production under way increases, enterprises have to resort to the creation of money by the bank system, save to the limited extent that they may have available stocks of money (for simplicity's sake, we shall eliminate this possible increase in the circulation of money relation, which makes no difference to our argument).

The role of the monetary authority is to permit the creation of the money required for the growth of income in production under way so that the increment in demand thus generated may be equivalent to the increase in output of final goods. In this way monetary stability can be maintained.

There are two principal sources of an increase in demand, namely, the growth of ongoing production, as has been explained, or the expenditure of the State, when its income does not suffice to cover its disbursements and recourse is had to the creation of money. Infla-

tion likewise has its origin in these two main sources.

We will now consider first the inflation stemming from ongoing production, and then that of fiscal origin. The two are closely interrelated, as will be seen in due course.

The additional income paid out by enterprises in the course of production under way corresponds to the increase in employment and in salaries and wages. In the play of market laws wage increases are related to the rise in productivity that enterprises expect to achieve. In other words, the rate of increase of wages corresponds to the rate of growth of productivity (it should be recalled that another part of productivity, that which is not transferred to the labour force, goes to swell the surplus).

What happens when the labour force is no longer passive, and acquires the necessary power to increase its wages at a rate higher than the growth rate of productivity, whether in quest of a genuine improvement or in order to recoup itself for taxation?

Obviously, in such a case the expansion of demand originating in production under way outstrips the increase in productivity in respect of final goods. An inflationary movement thus begins whose persistence will depend, firstly, upon whether the monetary authority raises the rate of creation of money in order to cope with higher wages; and, secondly, upon the continuance of the struggle for better pay. If both conditions are fulfilled, spiralling inflation will inevitably ensue.

It may usefully be asked, before proceeding farther, whether the monetary authority, in the fulfilment of its responsibilities for preserving price stability, could not refuse to grant such an increase in the creation of money. If this were to happen, enterprises would be unable to raise prices and would find themselves compelled to defray their heavier costs out of the increment in productivity, to the detriment of the growth rate of the surplus, or of the surplus itself, according to the strength of the pressure for redistribution.

Clearly, besides reducing the profitability of enterprises, this would adversely affect the rate of capital accumulation and consequently of employment. The opposition put up by enterprises to this restrictive policy, as well as its social consequences, would preclude its pursuit for any

great length of time. Enterprises will spare no effort to defend the surplus and its growth.

In this case, an increase in remunerations outstripping the growth rate of productivity will involve an expansion of demand accompanied by additional creation of money in order to raise prices.

But this is not all. The price rise will entail an upswing in rates of interest. Otherwise, a flight of money abroad will take place. And thus the financial costs of enterprises will rise, pushing up prices first and then wages. And the spiral will attain greater proportions.

We were saying a moment ago that enterprises try to defend themselves against the onslaught of wage increases by putting up prices. They succeed in doing so, but the effects obtained are momentary, for if rates of pay are raised it has to be at the expense of the growth of the surplus. The defence in question is therefore relative, since in this way the growth rate of the surplus rises and falls. Moreover, the rise in interest rates operates to the partial detriment of the surplus and of wages. Thus it happens that the holders of liquid resources are able to defend the real value of their money more efficaciously than those who are defending the surplus.

This first phase of the inflationary spiral may be accompanied by some increase in production. But it is also marked by steadily worsening distortions, both internal and external, which it is needless to consider here because they are well-known and because they make no difference to our basic argument. Sooner or later, however, the monetary authority will attempt to contain the inflationary process, to which end it will ultimately resort to the only instrument at its disposal, i.e., the restriction of credit accompanied by increases in interest rates which exceed the rise in prices, in consonance with the degree of severity of the restrictive policy.

The close of the first inflationary phase ushers in the second, that of the intention to contain inflation. To meet the requirements of enterprises and the pressure of labour itself, the monetary authority had been compelled to facilitate the creation of money and thus unleash inflation. Now it has to backtrack. To do so by means of the monetary instrument is an exceedingly difficult task, but if it is tenaciously carried out inflation can be curbed. The time has

come to explain the different manifestations of this anti-inflationary policy, making use of the production under way-finished goods scheme set forth above.

The case we are about to consider is characterized by the firm determination of the labour force to preserve, if not to improve, its real income, by outstripping price rises in the course of the spiral. We already know, however, that sooner or later the unemployment caused by restrictive policy calls a halt to wage adjustments.

Unemployment is an immediate consequence of this policy and is subsequently accentuated by successive decreases in the growth rate of production under way or even by negative rates.

When the monetary authority first refuses to allow the rate of creation of money to keep pace with the rise in the income paid out by enterprises, the latter will tend to raise wages at the expense of employment. Production under way, like employment, will be unable to increase as much as the income aforesaid or will have to be reduced, according to the strength of the upward pressure of salaries and wages.

While this is happening in the case of production under way, final goods continue to increase by virtue of the lag deriving from the time taken by the production process. The time factor must always be borne in mind in order to understand this line of reasoning. Some time will elapse before the slackening of production under way makes itself felt in the supply of final goods. Meanwhile, production in process continues to decline until wages cease to rise, as will be seen later. Thus there is a disparity between supply and demand with respect to final goods. The increase in demand deriving from the production of future goods under way is insufficient to absorb the increment in current goods, and the result is an unsalable glut of them on the market.

This left-over supply slows down the rate of demand for goods in process in all their phases. Thus, demand also proves insufficient to absorb productivity increments in these phases and the growth rate of the partial surpluses and therefore of the global surplus is correspondingly reduced, as the rates of production and employment slacken. Thus the initial reduction accompanying credit restrictions is supplemented by the consequences of insufficient demand.

This further decline in the rate of production under way takes place while wages are continuing to rise. Accordingly, the production in question is subject to a twofold pressure: exerted firstly, at the beginning, by credit restriction, and secondly, at the end, by the insufficiency of demand for final goods. The continued increase in remunerations and in rates of interest goes on pushing up prices, while the rate of production under way diminishes or becomes negative. Herein lies the explanation (in this case) of the formerly unknown phenomenon of an upward trend in prices and a contraction of production and employment (stagflation); it is basically due to the fact that wages continue to be adjusted to the rate of inflation.

To revert to the foregoing question: the shortfall in demand is continuous, because, owing to credit restriction, the income and demand generated in the production under way are not sufficient to absorb the supply of final goods. And supply surpluses are constantly making an appearance, with the consequences described above.

But this succession of movements towards contraction cannot be indefinitely prolonged. Increasing unemployment ultimately quells the labour force's endeavours to recoup itself for the upward trend of prices in the course of the spiral. Wage increases dwindle until at last they peter out altogether. And as this happens the rate of decrease of the income and demand generated by production under way begins to weaken. But owing to the time factor, it is some while before this weakening comes to affect the supply of final goods. The disparity between supply and demand, then, continues, although becoming less marked. Thus the supplies left over gradually diminish and consequently production under way declines less steeply.

We now enter upon the third phase, with a highly significant phenomenon. The slackening of the downward trend in production under way and employment means that the decline of the corresponding income slackens correlatively, without this being offset by ever-smaller wage increases. And as this process of weakening takes time to spread to final goods, the disparity between the decrease in demand and the decrease in supply continues to grow progressively less. Both diminish, but in the case of demand for

final goods the process is slower than in that of supply. In this way the inadequacy of demand and the impulse towards contraction of production are also reduced.

To all this must be added the fall in financial costs. For as wage increases diminish, interest rates are brought down, and, consequently, the decline of income and demand deriving from production under way is still further lessened.

Thus, in the third phase while the demand originating in the production under way declines, it does so at a rate lower than the rate of decrease of the supply of finished goods. So that the demand shrinks faster than the supply of final goods—still lagging behind—until the two break even when wages have ceased to rise. At this point the surplus supply of final goods will have been exhausted and so will the movement towards contraction of the economy.

Equivalence between demand and supply does not necessarily mean that the next stage will be that reactivation of the economy without which it will be impossible to reinstate the surplus and its dynamic role. In default of an expansionist policy, it may well be asked whether a spontaneous movement of recovery does not take place. My answer to this is in the affirmative, although such a movement has to be supported by credit expansion. I will go on to explain.

When mentioning the increase of income in the course of the production under way and the corresponding expansion of demand, I omitted—in order to avoid premature complications—to point out that a part of demand is deflected towards services, when it gradually returns to final goods. In this way some of the money created by the bank system remains in the services sector and continues to circulate there in the increasing course of production under way.

In turn, when an expansion of demand is followed by its decline, the part that is deflected into services becomes less than the part that returns in the form of demand for goods.

In my opinion, this return is a spontaneous element of reactivation, both in the case we are considering and in that of cyclical depression. The same might be said with respect to foreign trade. When production expands, demand tends to switch towards imports and to increase internally in respect of exportable goods. And when a contraction occurs the opposite happens, to the

benefit of demand for final goods or those in process of production. All of which means that it is indispensable to introduce the notion of time and space into analysis of the dynamics of growth.

Let us now revert to the implacable logic of monetarism. Following on the preceding argument, the conclusion is reached that it is possible to do away with the inflation caused when the rate of increase of wages is higher than that of productivity. The increase in question is not only that whereby the labour force proposes to improve its real income, but also that with which it claims to recoup itself for the increase in State expenditure, deriving either from the social advantages which the labour force itself obtains, or from other outlays, of which the cost ultimately falls, in one way or another, on its shoulders.

The worst of all this is that, given the system of appropriation of the surplus and of redistribution, no means other than monetarism are available for correcting the type of inflation with which we are concerned.

This is unquestionably an aberration, imposed by a system which is incompatible with the structural changes of society and the consequent changes in power relations. The aberration has its roots in the system itself. The upholders of neoclassical theory fail to recognize it, as has been remarked elsewhere. For in their view monetarism is the way to reestablish the correct functioning of the system.

In reality, this attitude on the part of neo-classicism is comprehensible, since according to its arguments the fruits of technical progress are socially disseminated by competition; we have tried to show, however, that even under a régime of absolute economic freedom this does not happen, but instead a large proportion of the productivity increment is retained and increased mainly in the hands of the upper strata. Consequently, the strivings of the labour force to improve its real income in excess of the rate of productivity and at the expense of the surplus are fully justified from the standpoint of redistributive ethics. But the system allows neither this nor State participation at the expense of the surplus, and reacts in the way we have explained.

Furthermore, the economic and social (and possibly political) cost of credit restriction is enormous. It means reducing economic activity

with the consequent unemployment and cutting down the surplus until it disappears altogether—depending upon the degree of severity of the restrictive policy—to the detriment of capital accumulation. A considerable amount of real income, moreover, is transferred from productive activity (enterprises and labour force) to financial activity.

This last point is deserving of special mention. The raising of interest rates in accordance with the rate at which prices rise implies defending not only small and medium-scale savers, but, above all, groups with large liquid financial resources. What is more, when the inflationary spiral has attained disquieting proportions, positive interest rates are apt to soar, while unemployment increases and productive activity suffers. In other words, while real income contracts, an increasing proportion is appropriated by the social groups in question.

We said that the surplus is adversely affected in the course of anti-inflationary policy and might be converted from positive to negative. It is true that the surplus is not always used in full, especially in peripheral capitalism, for the purpose of increasing reproductive capital. Imitation of the consumption patterns of the centres represents a very powerful brake on accumulation, not only in the upper strata but also, although much less intensively, at lower levels of the social structure.

This unsatisfactory utilization of reproductive capital accumulation potential, combined with the rapid rate of population growth in the periphery, makes a notable contribution to social marginalization, whether in rural areas or in the towns, or rather, to the shift of marginalization from the countryside to the city. This shift is of great socio-political importance, since the dispersion of the socially backward strata over vast rural areas is one thing, and quite another is marginalization in huge urban conglomerates where these strata awaken to awareness of their social situation and of their political power to participate in the struggle for redistribution.

To close this section, mention should be made of what was said in the appropriate context to the effect that negative interest rates, which would undoubtedly prove favourable to productive activity, tend to cause a flight of money abroad, as has happened in Latin America in

recent years, sometimes on a very large scale. Exchange controls may prove efficacious in stopping the flight of foreign exchange, but not for long, since they give rise to manipulations, on the part of both exporters and importers, aimed at diverting foreign exchange from the official market and negotiating it on the free market—especially when there is a big difference between the respective quotations.

A clear distinction must be drawn between inflation deriving from the fiscal deficit and inflation stemming from the labour force's efforts to improve its well-being by recourse to wage increases outrunning the rate of productivity or to social advantages or employment under the State, the cost of which, in the last analysis, has to be borne largely, if not entirely, by the labour force itself, and sooner or later leads to a monetarist reaction.

It should be stated from the outset that the two forms of inflation are closely interlinked and react upon each other. Inflation caused by the fiscal deficit pushes up prices and pulls down the real wages of the labour force. This implies a substantial transfer of real income from the labour force to the enterprises; but it is very short-lived, since because of price increases interest rates also rise, so that part of the income increments (or generation of inflation) of enterprises is transferred to financial activity.

It should not be supposed, however, that the case in hand is similar to the one we described earlier. The proposal to correct the inflationary effects of the fiscal deficit by means of a policy of monetary restriction leads to results which are far from efficacious even though so heavy a social and political cost has to be paid. The slackening of the rate of productive activity and of employment attributable to this policy ultimately helps to increase the fiscal deficit.

The fiscal deficit can be combated only by increasing taxation and reducing expenditure. But as was remarked in section 1, if the tax burden has to be borne by the labour force and this latter has the power to recoup itself, the taxes in question become inflationary. And if the burden falls on the surplus and weakens the rate of accumulation, the rate of productivity also declines. For the deficit is a manifestation of the tendency towards dynamic disequilibrium, and conse-

quently eludes the conventional methods of attack.

Albeit the two forms of inflation are of different origin, they influence each other, giving impetus to the spiral. The inflation that derives from the spiral leads to pay increases on the part not only of the State but also of enterprises, and causes or intensifies cost and price inflation. This, in turn, causes or aggravates the fiscal deficit. And if it is attacked with the monetary instrument, bringing about a contraction, as was explained a moment ago, this has an adverse incidence on the State, generating or increasing the deficit.

The problem has become unmanageable, both in the centres and in the periphery, failing an endeavour to strike at the roots of the tendency towards dynamic disequilibrium.

After these brief remarks on inflation caused by a fiscal deficit, it is time to revert to the inflation that stems from wage increases outstripping the rate of productivity. We have explained before how the policy of monetary restriction works. In the end, the insufficiency of demand produces contraction and unemployment; and that finally puts a stop to wage increases.

If a fiscal deficit occurs at the same time, however, monetary policy cannot achieve these effects, since, as rates of pay are reduced and the disparity between supply and demand dwindles, the fiscal deficit brings in its train an increase in inflationary demand which wholly or partly offsets, or altogether overrides, the tendency towards equivalence between the two. If this is so, monetary policy cannot contrive to curb inflation.

We have said nothing of inflation of external origin, whether it increases costs directly or indirectly through rising prices. If the labour force has power to recoup itself it will react by insisting on higher pay, thus triggering or accentuating the spiral. Monetarism will have to impose a further wage squeeze so that the surplus can be re-established. In the end the burden of the cost will fall on the labour force.

In this case, as in connection with the role of monetary policy, if rates of payment have been contained by the severity of unemployment, it may be asked what will happen if a reactivation policy, which is inevitable, increases employment once again. Is it conceivable that the labour force

will renounce its claims as it had to in an unfavourable situation of large-scale unemployment? I do not think so. Sooner or later it will try to recover the real income that it has lost, making room for inflation to escalate afresh. Herein lies

the basic problem not only of peripheral capitalism but also of capitalism in the centres, given the nature of the process of appropriation of the surplus, income distribution and reproductive capital accumulation.

IV

The crisis in the periphery and the incidence of the crisis in the centres

The notorious consequences of the crisis in the centres foster a certain proclivity in the periphery to blame them for the serious ills and vicissitudes of our development process. It is often forgotten how deep-seated is the tendency towards internal disequilibrium in our development which joins forces with these external factors.

The trend towards internal disequilibrium has been accentuated by the crisis in the centres, but it dates from far back, and in the days of the boom in the centres was already harshly apparent in the shape of stubborn forms of social inflation. As it evolved, significant marks of specificity were to emerge, of which the explanation lay mainly in the time-lag in the history of our development.

In what did this specificity consist? There are three features of signal importance. The first relates to the great structural heterogeneity, the wide diversity of technical layers and the distance between them. On this account, it would seem that the proportion of the surplus appropriated chiefly by the upper strata is larger than in the centres. The second emanates from imitation of the conspicuous consumption patterns of the centres, especially those of their upper strata. In this way a substantial proportion of the reproductive capital accumulation potential which the surplus represents is squandered. And lastly, there is the negative effect on the surplus itself produced by the trend towards dynamic disequilibrium which has so greatly influenced inflation, as well as by the measures adopted to contain it. These effects have intensified the structural tendencies towards an imbalance in relations

with the centres which are characteristic of peripheral development, again to the detriment of the periphery's surplus and its dynamic role.

To put it briefly: productivity is lower in the periphery because of its historical time-lag. But there is no such time-lag in the imitation of consumption which tends to spill from the upper strata downward, but with enormous disparities.

All this is damaging to reproductive accumulation, a point that needs emphasizing, because of its adverse social implications. There is not enough capital to remedy social marginality by increasing employment, either among the rural population or among the population that has moved from the countryside to the towns. Thus absorption of manpower falls short of what is needed, detrimentally to the rate of productivity and, therefore, to the rate of growth and to capital accumulation potential. This state of affairs is aggravated by the exceptionally rapid rate of population growth.

The vicious circle that cramps development possibilities is plain to be seen: accumulation is less than it could be because conspicuous consumption, mainly on the part of the upper strata, and insufficient productive employment in the lower strata, preclude the socially efficacious development of reproductive capital accumulation potential.

Of course there are other factors that operate in the same direction, including the hypertrophy of the State, in which another manifestation of the vicious circle is apparent. Inadequate accumulation, not only as regards the lower strata but throughout the system, generates a relatively redundant labour force which in the end is em-

ployed mainly by the State, a circumstance that ultimately militates against reproductive accumulation.

For all these reasons the productivity of the system is less than it might be, both in absolute terms and in respect of its growth, in contrast with the tendency shown by private and social spending and by State expenditure to increase at high speed, as revealed by our theoretical explanations. Understandable, then, is the nature of the dynamic disequilibrium which generally finds expression in very high and mounting rates of inflation.

This is the specificity of peripheral development as regards the appropriation of the surplus, accumulation, productivity and the struggle for redistribution.

In our countries the inflationary spiral usually brings highly significant political consequences in its train. It is true that the democratization process is difficult and immature, and when inflationary distortions contribute to its interruption, authoritarian governments, urged on by dominant groups, stop or regulate wage increases in order to contain inflation. The facts show that this has done more to re-establish the surplus and enhance the splendour of the privileged consumer society than to increase reproductive capital. And inflation has continued on account of other factors, mainly the fiscal deficit or the deterioration of the terms of trade.

Accordingly, regulation of wages having failed, all that is left is monetarism, which enjoys such prestige in some centres. All too well do we know the serious economic and social consequences which have followed in its wake. There is no point in listing them again.

It is small comfort to the periphery to say that the centres have fallen into similar aberrations. Or to observe that the effects of their crisis have done a very great deal to aggravate the tendency towards an imbalance in our relations with the centres, a matter that we shall go on to discuss.

This is a longstanding phenomenon that ECLA has tried to elucidate since its earliest days, when it analysed the calamitous impact of the great world depression on our development.

That crisis of capitalism in the centres, many as were the evils by which it was accompanied, nevertheless had the virtue of triggering a

reaction against passiveness on the part of the periphery. Until then a mere looker-on at the sweeping current of industrialization in the centres, the periphery, under the temporary constraints of the depression, took its first decisive step towards mingling in that current and thus embarking upon its industrialization effort and combating the external disequilibrium which for the first time was making itself felt with disquieting intensity.

It necessarily had to do this through import substitution. As years went by, it started upon the venture of exporting manufactures, benefiting by the boom period in the centres. This was a very positive event, which, however, helped to weaken import substitution policy. Not without a certain amount of anathematizing in some cases. The pendulum, which had swung too far in the direction of import substitution policy, thus went to the other extreme. It was thought that on the basis of exports of manufactures our countries could attain high rates of development; and not only was import substitution policy neglected, but also, as a corollary, no further serious thought was given to the regional market and reciprocal trade.

The present grave crisis of capitalism has dispelled great illusions. The perceptible decline in the rates of development of the centres is very unfavourably affecting exports of manufactures and their prices, while the cost of imports is rising. In the centres, again, there has been a recrudescence of protectionism, which, of course, had not been done away with during the years of prosperity. The liberalization of trade had related mainly to the goods resulting from technological innovations which were exceptionally nutritious to the trade of the centres. The periphery was once again left on the sidelines, without active participation.

The outlook is not promising; on the contrary, development projections for the centres are really discouraging, at least as far as this decade is concerned. Unemployment is very serious there and constitutes a formidable barrier to imports from the periphery which compete with the centres' own production.

But the obstacle is not set up by unemployment alone. In the boom years, when immigration of foreign workers was allowed, nothing of

importance was done to overcome the reluctance to import goods from the periphery.

I am inclined to think that there is something more in this than a circumstantial fact. It is in my view a new structural phenomenon to which no response has as yet been made in the shape of new trade formulas.

A moment's reflection is justifiable to promote discussion of this question. First and foremost, let us not forget comparative advantages. Undoubtedly, exporting from the periphery manufactures with a relatively low technological content would make it possible to purchase manufactures with a high technological content from the centres. Centres and periphery alike would benefit from their comparative advantages. Obviously, while the industrial development of our countries was still in embryo, comparative advantages in trade in manufactures could not possibly exist. Now they can.

What is it that leads the centres to forego these advantages, prejudicially to themselves as well as to the development of the periphery?

To understand this, the changes that take place in the structure of production of the centres should be borne in mind. The rise in productivity has enabled them to increase the surplus and capital accumulation, with the consequent expansion of employment, income and global demand. And although this process has weakened, the composition of demand has gone on continually changing. As the result of technological innovations, productivity is stepped up, and in addition the goods and services offered to meet demand are increasingly diversified. This process is accompanied by constant occupational shifts, occasioned not only by the labour force increment which makes for activities where the growth of demand is most thriving, but also by the displacement of workers who were already employed in activities less favoured by demand. Similarly, the capital investment deriving from the surplus undergoes corresponding shifts.

In consequence of the dynamic disequilibrium in the centres the growth rate of accumulation and employment has slackened, with the consequent decline in the rate of absorption of manpower.

The periphery has managed to assimilate the patterns of production of the centres in respect of manufactures with a relatively low technologi-

cal content and can compete with the centres' own output of this type at lower prices, causing unemployment and reducing the surplus and, therefore, accumulation, to the detriment of manpower shifts. That the dimensions of this phenomenon have often been exaggerated does not mean that it does not exist. True, it has barely begun and the centres are reacting with various restrictive measures. Viewed in the light of future prospects, this fact represents a major obstacle to the increasingly dynamic role that the periphery could play, for the first time, in the development of the centres.

This incipient external vulnerability of the surplus in the centres explains why even in boom years they did not liberalize imports of peripheral manufactures.

It should be taken into account that the instrument of international competition is not so much reduction of prices as diversification of goods. Prices generally fall when innovations result in the appearance of other and superior goods which attract demand.

This type of competition from the periphery touches the centres on the quick in these times of dynamic disequilibrium which have brought with them large-scale unemployment. And if this happens in the case of goods stemming from technological innovations, demand for which is usually brisk, matters are much worse when competition from the periphery affects goods for which demand in the centres grows slowly in comparison with demand for other goods. In addition to the effects of the sluggish rate of development of the centres, imports from the periphery are subject to unilateral restrictions which prevent them from enjoying the comparative advantages that the centres are still blazoning *vis-à-vis* the industrialization of the periphery.

It is no use expecting that the centres will throw open wide their doors. And even if they were to reach agreement with the periphery on regulatory formulae, this could not be expected to resolve the external problem of our development. A weighty reason for meditating upon the economic fractionalism of the periphery which we have been incapable of combating with vigour and resolution.

In face of the above-mentioned facts and prospects, the periphery should give serious

thought to utilizing its own development potential, without neglecting on that account any positive action it can undertake in relation to the centres. As long as the latter do not succeed in rectifying their trend towards dynamic disequilibrium, the effort to expand exports of manufactures will continue to be arduous, both because of the diminished rate of development of the centres and owing to their notorious restrictions.

It is needless to point out the adverse effects of these facts on development. Their significance is twofold. In the first place, they contribute to the external bottleneck just as in the past, and perhaps even more intensively, since the external imbalance also sets limits to genuine external financial co-operation. Secondly, the tempo of exports and the unfavourable terms of trade help to compress the surplus. And the combination of these two negative factors calls for radical changes in peripheral development in order to offset the twofold trend towards disequilibrium.

To these structural factors are added the effects of certain conjunctural measures which are adopted in the centres in order to cope with the crisis of structural origin. I am referring mainly to the anti-inflationary policy of the leading dynamic centre. The recessive effects on the economy are common knowledge: contraction of employment and high interest rates. Undoubtedly a notable success has been scored in reducing inflation. We have already explained its huge cost, above all for the weaker elements in the social structure. But this cost is not confined to internal affairs. As has been pointed out by OECD, whose members are the great centres, one-third of the cost in question has fallen on the primary production countries.⁴

It never rains but it pours. To our inflationary crisis and its aggravation by the external factors cited, are superadded the effects of the conjunctural measures in question, which help to give greater impetus to inflationary pressure on the part of both the labour force and the State. And recourse is had to conventional measures to combat ills that are growing more serious every day.

Obviously, the burden of the heavy service payments on the external debt worsens and com-

plicates the ills in question. Not the debtor countries alone but all are concerned, since they are obliged to follow internally the high interest rates prevailing in the centres, in order to contain the flight of capital. Even where an appropriate anti-inflationary policy to succeed in reducing internal rates, those others will still be a stumbling-block. A reactivation policy is difficult *per se*: even more so, if this unfavourable situation remains unchanged.

The need for vigorous reactivation is widely felt in the Latin American region of the periphery, especially in those countries which have pursued a policy of constricting production in order to correct the structural external imbalance accentuated by the above-mentioned conjunctural measures. The formula recommended from outside, and also advocated by local orthodoxy, is nothing new in Latin America: to abstain from artificial interference with imports and thus allow the play of market forces to re-establish equilibrium.

This leads me to discuss another aspect of the crisis we are experiencing: the crisis of economic ideas. It is a serious and disquieting crisis which makes itself felt in a variety of ways. One is the persistence of conventional ideas in face of new phenomena which have arisen out of the changes in the structure of society. This happens both in the centres and in the Latin American region of the periphery. As far as the latter is particularly concerned, there has been a great retroversion towards theories which we had thought definitively left behind. Lastly, cases have arisen in which, on the pretext of restoring conventional ideas, mistakes have been committed in their name through manipulating them with disastrous consequences.

As regards the first instance, we need not expatiate on what we have already said of the dynamic disequilibrium whence new forms of inflation derive. The outdated formulas of monetary policy involve counterproductive effects, and a huge economic and social cost, without correcting the structural factors to which the said disequilibrium is due.

Both the centres and the periphery are slow to understand this, and cannot reconcile themselves to acknowledging the imperative necessity of changing the whole process of appropriation

⁴See OECD, *Economic Outlook*, No. 32, Paris, 17 December 1982, p. 8.

of the surplus, of capital accumulation and of redistribution of the fruits of technical progress.

Counterproductive use of the monetary instrument is commonly justified on the grounds that its purpose is to reinstate the market laws violated by the redistributive power of the labour force and the hypertrophy of the State. While the economic efficiency of these laws should not be overlooked, it is under their unrestricted rule that the structural phenomenon of the surplus emerges, from the appropriation of which ultimately emanates the dynamic disequilibrium between expenditure and reproductive investment—the primary source of the new forms of inflation.

The magic of the market had long been renounced where the creation of money was concerned. Experience had shown that it could not be left to the guidance of the profit incentive. Monetary regulation by the State through the central banks was then imposed. Efficacious as was this macroeconomic regulation in former times, it now has to give place to other forms of regulation in order to prevent inflation.

But what had happened in the international field is not exactly that these new forms are lacking but that everything that was positive in monetary regulation was thrown to the winds. Market laws had to be left to multiply the monetary resources flowing from the leading dynamic centre and use them in pursuit of the profit incentive. That would be the most advantageous allocation of resources. All too well-known are the lamentable consequences of this lack of regulation, which, it would seem, have not yet come to an end.

Let us now pass on to the swingback to conventional ideas that we thought had been discarded once and for all in the Latin American region of the periphery. I am referring to what we had called the outdated pattern of the international division of labour, which had left the periphery stranded on the edge of the tide of industrialization in the centres. It is not that this pattern was devoid of logic. Rather did it ignore significant structural differences between the periphery and the centres. These differences warranted a carefully-thought-out industrialization policy envisaging import substitution first and exports of manufactures later. What this implied was not dispensing with market laws but estab-

lishing basic structural conditions which would make them dynamically efficacious in peripheral development.

Now, the neoclassical theories on which that outdated pattern was based have broken out again in our countries and have spawned measures whose effects on industrialization have been deplorable. Unquestionably excesses and abuses in industrial development had to be set right. But that in no way rendered it advisable to take rash steps of serious import which sought to justify an anachronistic retrogression.

The centres, it is true, have sung the praises of this swingback which was preached in the name of old-fashioned economic theories. How can such ideological pertinacity be explained when even in times of long-drawn-out prosperity the centres abstained from extending their liberalization to manufactures from the periphery? What is more, how is it possible to justify the proliferation of new restrictive measures which set aside the principle of comparative advantages so strongly recommended to us by the centres?

Lastly, I should like to make a few observations on certain ways in which conventional ideas have been manipulated in the periphery.

One of these has been overvaluation of the currency, obstinacy in maintaining an exchange rate which did not follow the course of domestic inflation. The damage caused to industrial (and also in some cases agricultural) production has been considerable. Industries have been ruined by excessive external competition and in a brief space a tenacious effort to export manufactures has been virtually wiped out.

Overvaluation has been invoked as a means of containing imports and, through lower prices, domestic inflation. But surely was this not one of the advantages of the gold standard? It is true that in the good old days of the gold standard the conjunctural expansion of imports entailed a decrease in monetary reserves and therefore a correction of inflationary expansion. But as far as I remember, this was never thought to be compatible with the continuance of the fiscal deficit or other internal factors responsible for inflation.

In former times the gold standard was an important element of relative monetary stability, and, despite its disappearance, some of the principles it involved retain their validity. But it must

be acknowledged that in the Latin American region of the periphery its spontaneous operation intensified the external vulnerability of our economies. Experience gradually taught the advisability of certain regulatory measures to preserve stability in face of external fluctuations. But as a result of the manipulation of certain principles, measures of this kind were abandoned, and the monetary market was left completely exposed to international vicissitudes. And the decision to do this was taken precisely when the aberrations of the Eurodollar market, to which we referred in section II, had become notorious. This market was very far from affording a paradigm by which our monetary or financial policy ought to be inspired. Or, worse still, a paradigm that should lead us to do without a policy of our own, letting history repeat itself spontaneously through the play of international forces. Another lamentable case of manipulation of concepts!

In our countries we had begun to think for

ourselves, to sift the ideologies of the centres through the screen of our own experience. And also to recognize clearsightedly the shortcomings of our own development. The lessons of this crisis are highly important. They must be conned with dispassionate objectivity. We must set out anew on the path of our intellectual autonomy; and always bear in mind that the centres have shown interest in the development of the periphery only when it suited their own economic, political or strategic interests. They have never been concerned with the underlying social depths of peripheral development. In short, it has been no concern of theirs that the periphery should cease to deserve that name. Let us embrace the conviction that such a change, whether in ideas or in facts, cannot come from outside. It must be our own work: a Latin American achievement, compatible, of course, with new forms of international co-operation and co-existence.

Recent ECLA Publications

Economic Survey of Latin America 1981, ECLA, United Nations, Santiago, Chile, 1983, 837 pages.

This is the English version of the *Estudio Económico de América Latina, 1981*. See the summary given in No. 20 of *CEPAL Review*.

National accounts in Latin America and the Caribbean, "Cuadernos de la CEPAL" series, No. 45, Santiago, Chile, 1983, 97 pages.

This is the English version of the *Cuaderno* of the same number, *Las cuentas nacionales en América Latina y el Caribe*. See summary in No. 21 of *CEPAL Review*.

Five studies on the situation of women in Latin America, "Estudios e Informes de la CEPAL" series, No. 16, Santiago, Chile, 1983, 188 pages.

This is the English version of *Cinco estudios sobre la situación de la mujer en América Latina*. See summary in No. 19 of *CEPAL Review*.

Política económica y procesos de desarrollo. La experiencia argentina entre 1976 y 1981, "Estudios e Informes de la CEPAL" series, No. 27, Santiago, Chile, 1983, 157 pages.

From 1976 to 1981, the conduct of Argentine economic policy was in the hands of representatives of what was known in that country as liberal orthodoxy. The purpose of this work is to appraise their administration, placing special emphasis on aspects which, because of their departure from the predominant orientations of the past, have come to the fore in everyday discussion. From this perspective, topics relating to changes in the Argentine economy's links with the exterior are of central importance, so that the main chapters deal with the opening-up of trade and tax reform, on the one hand, and monetary policy, financial reform, and the opening-up to capital movements from abroad, on the other.

Among the main points made in the course of this research, mention should be made, first, of the unswerving fidelity displayed throughout the entire administration to ideological principles, which even prevailed over considerations of a strictly economic nature. Because of this unswerving fidelity—as demonstrated, for example, by the subsidiary role of the State and the trust in the operation of market mechanisms as elements for disciplining social behaviour—in the face of the inevitable difficulties (especially since the second half of 1979) in reconciling the administration's objectives as regards the inflation rate with businessmen's expectations of profitability, the gulf between those who had initially supported or were sympathetic towards this policy and the economic authorities themselves became greater and greater.

In the second place, as a result of this policy, there was nearly complete abandonment of what had been outstanding features of the political programme in force since the post-war era: emphasis on growth of production and on gradual progress towards a society based on programmes of broad social coverage with State support. Although the official posi-

tion did not explicitly deny those objectives, the manner of implementation of the economic policy left no doubts as to the scant importance assigned to them.

A third feature was the inability—despite supposedly excellent political conditions—to cut the Gordian knot of the contemporary functioning of the Argentine economy in order to attain higher, and stable growth rates in the total product, while keeping price rises at lower and steady rates. In both aspects, the results obtained throughout the administration in question implied a step backwards from the cycle of expansion which had begun towards the early 1960s and ended in 1974.

Fourthly, in an additional sign of differentiation between the firmness in the ideological sphere and the pragmatism at the operational level, there was unusual inconstancy in the management of the basic prices linking the national economy with the exterior: the real exchange rate and the real interest rate (or the difference between it and the external rate).

The study concludes that it is open to question whether this was simply a determined attempt to break with the basic principles of the urban-industrial political alliance, the traditional counterweight in recent times of the liberal interests supported institutionally by the armed forces, or whether it was an attempt to construct an economic, political and social organization on new bases; in any event, there is no doubt that in both cases it was an unmitigated failure.

Empresas transnacionales en la industria de alimentos. El caso de Argentina: cereales y carne, "Estudios e Informes de la CEPAL" series, No. 29, Santiago, Chile, 1983, 93 pages.

The purpose of this report is to focus attention on the role which transnational corporations play, or can come to play, in the food and agriculture system of Argentina, from the perspective of that country's resumption of its special function as one of the few important world exporters of grains and meat, and indeed almost the only one among the developing countries. Because of that distinctive feature, emphasis is placed on elements that are somewhat different from those usually discussed in connection with those countries.

First of all, the document reviews the activity of the transnational corporations not only in the phase of food processing but also earlier on, in the supply of machinery and other agricultural inputs, in order to determine the extent to which the participation of transnational corporations in the supply of those elements, and the adaptation of the technologies transferred by them from other countries, has been important in the new agricultural expansion of that country. The document also explores the extent to which the continuation of that expansion can mean an increase in the role of those corporations, and whether their ability to turn the advantages of the process basically to their own account can adversely affect the payment of fair prices to the rural producer or the safeguarding of national interests in terms of external balance and autonomy.

In the second place, because of Argentina's important role as an exporter, the report examines the participation of transnational corporations in the external marketing of grains and meats: an area of serious conflicts in the contemporary history of that country. An attempt is made to determine to what extent the expansion of the volumes exported to food-deficient areas of the rest of the world may come under

the oligopolistic control of the same few transnational corporations which dominate the international trade in those products.

This report is a preliminary analysis of these questions: the difficulties in obtaining data on the activities of transnational corporations are well known, and this study has therefore only been able to provide a general description which does not go beyond a qualitative estimate.

Industrialización en Centroamérica 1960-1980, "Estudios e Informes de la CEPAL" series, No. 30, Santiago, Chile, 1983, 168 pages.

This study seeks to provide information on the progress of the industrial development process in Central America.

It begins with a brief discussion of the basic features of the long-term industrial development of that region, with special reference to its evolution and to the situation of the manufacturing sector at the end of the 1970s. The main elements of the industrialization policy are then analysed, in particular those which actually came to be implemented by the authorities. The following chapter contains a partial discussion of the experience built up in the areas of public sector participation, foreign investment and the role of Central American private entrepreneurs as agents of the industrialization process, and, finally, the study describes the behaviour of external trade in manufactures and weighs the importance of such trade for Central America in the expansion of the area's industrial production.

In appraising the evolution of Central American industry as a whole, the study concludes that regional co-operation has definitely left a positive balance, since it created a minimum industrial base which considerably improved the previously existing development potential in all the Central American countries. The direction of that evolution—above all because of the circumstances which characterized the 1970s—presumes a lack of expansion of basic industry (iron and steel, pulp and paper, chemicals, for example), which is an essential requirement if the impetus of demand is to be transmitted and strengthened within the national industrial sphere, and not to be reflected, as has been the case up to now, in growing imports and an external imbalance.

Dos estudios sobre empresas transnacionales en Brasil, "Estudios e Informes de la CEPAL" series, No. 31, Santiago, Chile, 1983, 141 pages.

These studies were prepared during the two-year period 1981-1982, their purpose being to analyse the importance of transnational corporations in the Brazilian economy. The first, "Empresas transnacionales y el comercio exterior de Brasil", is of a more analytical nature and examines the actions of these corporations in the foreign trade of Brazil, on the basis of a sample of 637 major transnational corporations. It summarizes the most current theories put forward in the specialized literature on the behaviour of the transnational corporations in foreign trade and compares them with concrete data specific to the case of Brazil. The study examines the main features of these corporations, their performance in trade and in manufacturing industry, and compares their

behaviour with those of national corporations in foreign trade.

The second study, "La presencia de las empresas transnacionales en el Brasil", is of a more empiric nature and consists of a survey of transnational corporations in the Brazilian economy, on the basis of a representative sample of 819 subsidiaries or branches in the different sectors of the economy. Of this sample, 647 operate in manufacturing and 172 in other sectors, for which reason the analysis for the secondary sector is broader than for the other economic sectors, where there is less reliable data available. An annex contains the list of the corporations in the sample, specifying their country of origin, foreign participation coefficient, net-worth, sales and number of employees.

La crisis económica internacional y su repercusión en América Latina, "Estudios e Informes de la CEPAL" series, No. 32, Santiago, Chile, 1983, 81 pages.

Since 1974, the economy of the industrialized countries has been in crisis. Among the main signs of this crisis, which has had no precedent since the 1930s, are high rates of unemployment, high inflation, a drop in the product and in investment, increases in fiscal deficits and disequilibrium in the balance of payments.

Many symptoms suggest that this crisis, which was aggravated or accelerated by the 1974 petroleum crisis, had already been brewing for several years before that. Some statistical analyses show that at the end of the 1960s, a substantial change was already occurring in the structure of international demand for manufactures, which was to have important repercussions on the production of the industrialized countries. At the same time, the crisis in the agricultural sector of the EEC and in the United States and the changes introduced in the cost structure by the relative increase in energy prices formed other elements which complicated the recessive situation created by the first petroleum crisis.

Finally, some structural changes in the economy of the industrialized countries (a sharp increase in public spending in relation to the product, vigorous development of social security and especially unemployment insurance benefits, indexing of wages and social security payments, demographic changes which generated increases both in the working population and in the number of pensioners, disappearance of the system of fixed exchange rates) have altered the behaviour of the economic agents and delayed the implementation or reduced the effectiveness of traditional adjustment measures.

The crisis in the centres took several years to make itself felt in Latin America. However, its impact from 1981 onwards was extremely marked, and the following year there was already a financial bottleneck situation in several countries, which caused the first drop in the regional product since the early 1940s.

The first part of this document analyses the manifestations of the crisis in the industrialized countries, as seen in the behaviour of the major economic aggregates, after which the various interpretations that have been given to the crisis in them are reviewed.

The second part analyses the impact of the international crisis on the Latin American economy and makes some suggestions concerning measures which, in the short and medium term, could be adopted by the countries of the region so as to reduce its negative effects.

Cooperación económica entre Brasil y el Grupo Andino: el caso de los minerales y metales no ferrosos, "Estudios e Informes de la CEPAL" series, No. 34 (Joint IPEA-ECLA publication), Santiago, Chile, 1983, 148 pages.

This document attempts to set out the background and explore the possibilities for co-operation between Brazil and the countries of the Andean Group in the non-ferrous mining and metals sector.

As is the case with other production sectors, the relative weakening of the global integration systems has been accompanied by a resurgence of sectoral-based bilateral agreements of a partial nature, which can be carried out practically and readily. The non-ferrous mining and metals sector has already explored co-operation between Brazil and some countries of the Andean Group, although this has basically been restricted to the area of trade. Along with traditional forms of co-operation, such as the establishment of tariff preference margins and tariff and non-tariff concessions, agreements lasting several years for the supply of raw materials (such as those regarding copper and zinc, with Peru), linked with experiments at direct purchasing between the public enterprises of both parties, began to appear.

As a corollary of this essentially commercial co-operation process, the idea of establishing a regional Latin American system designed to give short-term self-sufficiency in mineral and metal products has been developed. This reflects the complementarity of resources and their current phase of exploitation, which could result in the rationalization of installed capacity to the mutual advantages of the countries concerned.

Other co-operation mechanisms, although they have not been extensively developed to date, also offer interesting potential: one of these is technological co-operation for mining and metal producing prospecting, exploration and processing. This area opens up not only the possibility of bilateral and multilateral co-operation for the exchange of information, but also that of carrying forward joint research and development measures and projects, which would make it possible to concentrate resources currently being applied in an un-co-ordinated manner and use them to better advantage.

Another co-operation mechanism which could be implemented in the short term is institutional strengthening, which would include the organization of a system of regional information on production, exporting, trade experience and transport; technical-administrative co-operation for the management of public enterprises; and the organization of producers and consumers of certain minerals and metals so as to broaden intra-regional co-operation and strengthen

joint bargaining power with respect to other countries or blocs.

With this frame of reference, the first part of the document presents a brief description of the economic relations between Brazil and the countries of the Andean Group and the possibilities for co-operation in general terms; the second part analyses the current situation and prospects for supply and demand as regards the main non-ferrous minerals and metals, and finally, the third part identifies specific fields of co-operation, the experience gained and the elements upon which possibilities for co-operation depend. The document also contains, in an annex, a note on the structure of business ownership in the sector analysed and some of the main official documents on existing co-operation arrangements.

PLANINDEX. *Resúmenes de documentos sobre planificación (PLANINDEX. Summaries of documents on planning)*, Vol. 3, No. 2, December 1982. ECLA/CLADES/ILPES, Santiago, Chile, 1983, 376 pages.

This is a six-monthly periodic publication each issue of which assembles details of the documentation on planning processed and entered into the CLADES data base, which is fed through the joint efforts of CLADES and the Caribbean Documentation Centre (CDC) of the ECLA Subregional Headquarters in Port of Spain. For this reason the summaries describing the contents of the documents appear in either Spanish or English, according to the source of the information.

In 1979 and 1980, the processing of documentation was restricted exclusively to that produced by central planning offices, in order to create a basic nucleus of information of use to planners.

This issue of PLANINDEX refers to part of the documentation existing in the collections of the ECLA Library, CLADES and the ECLA Documentation Centre in Port of Spain.

As this publication is a working tool through which it is possible to learn of publications which have been issued on the subject of planning and also select in a more informed manner the information needed by the planner, CLADES and the Caribbean Documentation Centre (CDC) offer those interested the possibility of receiving total or partial photocopies, depending on their length, of the documents mentioned therein.

As the data base is centralized in Santiago, CLADES will be able in the future to offer other services resulting from the utilization of this base, namely:

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Los desastres naturales de 1982-1983 en Bolivia, Ecuador y Perú, E/CEPAL/G.1274, December 1983, 227 pages (mimeographed).

As a result of a widespread alteration in climate throughout the South Pacific—from Indonesia to Latin America—extensive floods and droughts have occurred, especially affecting Bolivia, Ecuador and Peru. In view of the magnitude of the damage sustained because of these natural phenomena, the Secretary-General of the United Nations decided in June 1983 to seek formulas which would make it possible to mobilize international assistance to relieve the suffering of the population affected. To do so, the Secretary-General—in consultation with the respective governments—appointed a Personal Representative to visit the countries affected, accompanied by officials of other bodies of the system, and determine the type and magnitude of the aid needed.

Upon confirming that the damage caused by the drought in the Altiplano in Bolivia and Peru and by the floods in the coastal zones of Ecuador and Peru was extremely serious, and that the domestic resources of the three governments were not sufficient to meet the most urgent needs and to begin rehabilitation and reconstruction, the Special Repre-

sentative's mission decided to divide its work into two stages. The first—which was begun immediately—consisted of defining, in close collaboration with the respective governments, the needs to be met without delay. To fulfil the second stage, the Office of Special Political Affairs of the secretariat conducted another visit to those countries, for the purpose—in collaboration with the governments—of identifying rehabilitation and construction projects.

This document contains the mission report, which describes the origins and features of the natural phenomena which have caused the disasters, defines and quantifies the damage to productive and social sectors and to the infrastructure, and indicates the adverse consequences for the economies of the countries in question.

Next, and on the basis of the above-mentioned diagnoses, the report presents a list of projects aimed not only at repairing the damage but also at carrying out work or implementing measures to prevent or attenuate possible damage caused by similar phenomena in the future. The aim is to ensure that the population affected achieves an acceptable level of security as regards their material situation, food and health.

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