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# Economic Bulletin for Latin America

Vol. IX, No. 2, November 1964

	Page
1. Fifteen years of economic policy in Brazil	153
2. Dual exchange rates and economic development, by Nicholas Kaldor	215
3. Popular participation and principles of community development in relation to the acceleration of economic and social development	225
4. Latin America's coffee exports to countries members of the European Economic Community	257
5. The United Nations Conference on Trade and Development	263
6. Recent ECLA activities	268



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Economic Bulletin for Latin  
America, Vol. IX N° 2 1964

The *Economic Bulletin for Latin America* has been published by the secretariat of the Economic Commission for Latin America twice yearly since 1956. The essential purpose of this periodical is to provide a résumé of the economic situation of the region designed to supplement and bring up to date the information published in the Commission's annual economic surveys. Apart from this summary, which is to appear in every issue, special articles on different subjects related to the economy of Latin America are included.

Since October 1958 the *Bulletin* has regularly included a Statistical Supplement. This subsequently became large enough to warrant separate publication, one issue being published in 1960, another in 1961 and two in 1962, each being bilingual with the corresponding table of contents. In 1964 the *Statistical Bulletin for Latin America* will appear, to provide the public with a regular flow of statistical data on economic matters.

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#### EXPLANATION OF SYMBOLS

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

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A minus sign (—300) indicates a deficit or a decrease.

A space is used to separate thousands and millions (3 123 425).

A stroke (/) indicates a crop year or a fiscal year, e.g., 1954/55.

An asterisk (\*) is used to indicate partially or totally estimated figures.

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## CONTENTS

### 1

	<i>Page</i>
The growth and decline of import substitution in Brazil.....	1
Protectionism and industrialization in Latin America by, <i>Santiago Macario</i> .....	61
Tax incentives in Latin America, by <i>Pedro Mendive</i> .....	103
Central America: industrial policy problems.....	117
Recent ECLA activities:	
I. Workshop on budgetary classification and management in Central America and Panama (San José, Costa Rica, 18-30 September 1963).....	131
II. Working group on classification of manufactured products (Santiago, Chile, 4-15 November 1963) .....	132
III. Meeting of Latin American Government Experts on Trade Policy (Brasília, Brazil, 20-25 January 1964) .....	133
Activities of the Latin American Institute for Economic and Social Planning.....	143

### 2

Fifteen years of economic policy in Brazil.....	153
Dual exchange rates and economic development, by <i>Nicholas Kaldor</i> .....	215
Popular participation and principles of community development in relation to the acceleration of economic and social development.....	225
Latin America's coffee exports to countries members of the European Economic Community.....	257
The United Nations Conference on Trade and Development .....	263
Recent ECLA activities:	
I. Fourth session of the Trade Committee (Santiago, Chile, 9-13 November 1964).....	268
II. Latin American Regional Seminar on the Role of Community Development in the Acceleration of Economic and Social Development (Santiago, Chile, 22 June-1 July 1964) .....	275

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ECONOMIC COMMISSION FOR LATIN AMERICA

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## FIFTEEN YEARS OF ECONOMIC POLICY IN BRAZIL

### INTRODUCTION

Brazil's experience in economic policy over the past fifteen years affords particularly interesting material for the study of problems connected with the introduction of an industrial system into a predominantly primary economy. The particular significance of Brazil's case will become clear if the considerations set out below are taken into account:

(a) From a qualitative standpoint Brazil's industry today is of the type characteristic of a mature economy, having a small import coefficient and a diversified capital goods sector;<sup>1</sup>

(b) Most of the transformation took place in the course of the past decade;

(c) The part played directly and indirectly by the public sector in guiding the process of change increased sharply during the period in question;

(d) The drastic alterations in the structure of the production machinery were not accompanied by marked changes in the institutional apparatus. They did, however, give rise to some efforts to provide the instruments required, characterized mainly by their heterogeneity and clearly pragmatic nature;

(e) The changes that took place in the secondary sector had no effect on the country's old primary-exporting areas, its agricultural activities and a large proportion of its population, which were thus virtually left without the benefits of economic progress. In many ways this limited the scope of industrial development and contributed to the formation of a non-integrated economy. Nevertheless, in the past the one-sidedness of the process was no obstacle to the development of the dynamic sectors;

(f) The transformation was accompanied throughout by a marked inflationary process, the struggle against which, save for brief periods, was dependent upon development policy.

An over-all appraisal of the series of economic policy measures adopted in Brazil over the past fifteen years brings out another important feature of these events. The typical phases of industrial development are linked

to an equal number of patterns of economic policy, which, synthesizing as they did the decisions taken in respect of the problems of the economy as a whole, came to constitute increasingly deliberate attempts to answer the questions which history raised. It should be borne in mind that in the course of the industrialization process, as the forces which stood behind industrial dynamism gained in importance and influence, a growing insight into the nation's problems was acquired. Likewise, such terms as economic development and underdevelopment, agrarian reform, literacy campaigns and promoting the dynamic growth of the Nordeste became part of the basic vocabulary of the urban population. This reflected a political urge, a nationwide endorsement of the idea that the country must develop, which provided an explicit frame of reference for Brazil's economic policy. In the area of dynamic development and, through a "demonstration effect", in the marginal areas as well, a change has taken place in the standards applied in evaluating the action of executives. All candidates for political posts are required to produce a plan or programme, or to have a record of achievements to their credit. These factors, today part and parcel of Brazilian life, are of very recent date, having been practically unknown before the fifties.

It should not be concluded from these remarks, however, that a rational course is to be discerned in economic policy. The time is probably still far off when perfect compatibility and integration will be achieved in respect of the aims pursued and the best possible means will be utilized for attaining them. No centralized decision-making process has as yet been established to give economic policy the requisite degree of consistency. The polycentric nature of Brazil's economy, the complex and divided character of its national society, and its ill-balanced developments are all responsible for the lack of such a process. There are many loose ends in economic policy; conflicting aims are pursued simultaneously; and policy instruments are wielded without regard for their side-effects. Nevertheless, substantial formal advances were made during the fifties, a central body of instruments was set up, with educative and coercive effects on the marginal areas, and, what is even more important, the principal economic development trends found support in policies deliberately planned to strengthen their potentialities.

<sup>1</sup> For the three-year period 1959-61 the import coefficient was 7.5 per cent of the gross domestic product. According to the Three-Year Plan, in 1958 the domestic market supplied 67.2 per cent of the capital goods required.

The aim of the present study is to record the salient features of economic policy evolution in Brazil. To that end it is divided into two parts. The first attempts to define the characteristic phases of economic policy and the context of each, in terms of the basic guidelines followed and the social and economic situations by which they were dictated. The second part consists of a short account of the set of economic policy instruments used and the principal advances made in this field, and also points out some institutional changes resulting from economic growth.

### 1. CHARACTERISTIC PHASES OF ECONOMIC POLICY

The first part describes the characteristic phases of economic policy indicating the main objectives pursued, the social and economic patterns inspiring them, their implementation and results. From this standpoint, the measures and systems adopted may be broadly classified into five well-defined phases.

The first covers the period 1948-50 during which economic policy was basically dependent upon and moulded by external behaviour patterns. Although this phase had a vital effect on the subsequent course of industrialization, no particular or deliberate interest was evinced in industrial development. Decisions were adopted in response to the behaviour of the external sector and were essentially aimed at limiting domestic and external imbalances. Industrialization came about at this stage as the result of previous circumstances rather than through the deliberate pursuit of a major objective, and can therefore be fairly described as "spontaneous".

The difficulties arising in the phase of non-complementary industrialization forced Brazil to become aware of the whole complex of its industrial development problems.

Two phases of influence can be discerned with respect to industrial development policy throughout the fifties. The first lasted from 1951 until the second half of 1954, giving shape to what might be termed "a first approach to development policy"; it also marked the establishment of the machinery for adopting economic policy decisions. The second stage covers the late fifties when, under the Target Plan, every effort was deliberately directed towards the construction of the higher strata of a vertically-integrated industrial pyramid. The second phase differed from the first both in the intensification of effort and in the broad scope and complementarity of the sectoral aims pursued. A period of transition extending from about the second half of 1954 to the end of 1955, separated the two phases. This interim period was the result of an accentuation of Brazil's inflationary process and of changes in its political spectrum, which led to unsuccessful attempts to institute conventional stabilization schemes. In fact, the failure of these attempts and the reasons behind it constitute the chief grounds for the attention merited by that period.

Lastly the early sixties cover another typical phase of Brazil's economic policy. Partly owing to the reduction in incentives as a result of the external bottleneck, and partly because of the intensification of inflation, economic policy underwent a change. The salient features of the new system consist, on the one hand, of a shift in the focus of interest from industrial develop-

ment to the curbing of price increases, and, on the other, of an attempt to seek spheres of economic growth other than the simple vertical integration of the economy, e.g., regional developments, reorganization of the agricultural sector, etc.

### 2. EVOLUTION OF THE INSTRUMENTS OF ECONOMIC POLICY AND INSTITUTIONAL REFORMS

The aim of this section is to depict the instruments used in each outstanding phase of economic policy, and at the same time, to record the institutional changes necessitated and/or brought about by the economic development noted. Space is too limited for a meticulous account to be given of the whole set of instruments and the principal modifications to which they were subjected; all that has been attempted is to sketch their salient features. The present study is not, however, purely descriptive in character. Some endeavour is made to identify the most important of the reasons for the changes in the various instruments, as well as the factors that determined the forms these assumed and their methods of operation.

With the margin of inaccuracy inevitable in any systematic breakdown, three attitudes to this question can be identified that roughly correspond to the chronological phases in which the guiding principles of economic policy are grouped here. The first phase, stretching from the post-war period to the early fifties, is characterized by an almost complete lack of interest in the subject. All instruments but those connected with foreign exchange rates were neglected, no concern being shown for their deliberate application to secure declared economic objectives. They fulfilled, so to speak, purely vegetative and routine functions. In these circumstances, no interest attaches to a detailed appraisal of the instruments used during the period in question.

The second phase coincides with the Target Plan period. Nevertheless, as in the phases of economic policy, there was a period of transition between this and the preceding stage, in which certain relevant measures were adopted that heralded the new approach by which the Target Plan was to be distinguished, and which consisted in the empirical establishment of instruments with a view to the solution of specific problems, regardless of their secondary effects, and without any attempt to visualize them as an integrated whole. This period of transition covered the first half of the fifties, when the drawbacks of an unco-ordinated industrialization process began to make their presence felt. However, these transitional years can also be passed over and attention concentrated on the Target Plan period, not only because it represents the consolidation of the approach previously tried out on a modest scale, but also because to analyse it automatically implies reference to those initial measures. Moreover, the great majority of the latter were only to be manipulated to full effect in the period covered by the Plan, prior to which, more often than not, they were reduced to mere legal authorizations.

Lastly, in the early sixties, a new attitude to the instrument problem emerges. The structural changes introduced in the economy, the shifting of its centres of gravity, the increasing complexity of its everyday life and the new unknown quantities involved in its

dynamics, gave the question of redefining the role of the State and solving the problem of the instruments to be used and urgency unprecedented in the history of Brazil. The subject ceased to occupy a secondary position, subordinate to the attainment of the proposed targets, and became one of the burning issues of the day, of importance for its own sake. For the first time, although still cautiously, the study of instruments as such was assigned a new status among the concerns of economic policy.

Attention should now be focused on another aspect of the relationships between machinery and institutional changes. It is no easy matter to establish a distinction between the concepts of an instrument of economic policy and an institution. Nevertheless, the adoption of the sociological definition of this latter—a complex of social patterns which crystallize or become more stable and traditional, and which, since they have a specific

social function (domestic, religious, economic, political, etc.) are calculated to ensure the unity and the continuity of society—makes it possible to draw a dividing-line, although not a very precise one, between the two fields. A change in an instrument would not affect the structure of society. It is a matter of modifying the means that a society with a given structure has at its disposal for the discharge of socially-determined functions. The modification of an institution, on the other hand, would reflect a more or less radical change in the structure of society, implying a parallel transformation of its functions. It is on the basis of these concepts that an attempt will be made to classify the trends observable in relation to the instruments of economic policy in Brazil, although this solution cannot be considered altogether satisfactory, if only because the two problems are inextricably interwoven in a society undergoing so rapid a process of change.

## I. CONTINUATION OF "SPONTANEOUS" INDUSTRIALIZATION (1948-50)

The selection of these years obviously does not mean that the industrialization process actually started in that period. It is known to have taken shape in the first few decades of the present century and to have speeded up after the Depression and the Second World War, when the new pattern of growth based on import substitution became more firmly established. The years 1948-50 were chosen because of the necessity of establishing a contrast between "spontaneous" industrialization—interpreted mainly as a reaction to external pressures—and the industrialization which took place during the fifties, when it became a social objective and guiding principle of economic policy.

A study of the period selected is essential to a proper understanding of the later stages of economic development, since it was precisely from the incentives created by foreign exchange practices that there emerged the principal forces which were subsequently to influence the course of development. Before embarking upon an analysis of foreign exchange policy, a point worth stressing is that the guiding principles and instruments of that policy were the chief—and to some extent the only—measures applied with deliberation. Hence it is that this was virtually the only area in which major decisions were taken during the period.

The foreign exchange measures adopted during those years can be summed up briefly as follows: the adoption of fixed multiple exchange rates for all external transactions; maintenance of this rate for five years, despite an annual rise of about 15 per cent in domestic prices; strict administrative control of imports through the issue of import licences specifying the quantity, quality and price of the imported item for every transaction; discretionary authority in the granting of licences exercised against "less essential" imports of durable and non-durable consumer goods; and the absence of any special machinery for the collection of fiscal revenue from external transactions.<sup>2</sup> Before analysing the effect

of this exchange system, it would be as well to take a brief glance at the events that led up to its adoption and at the factors which permitted such practices to continue for five years.

### 1. BACKGROUND DATA ON EXCHANGE POLICY

As a supplier of raw materials, Brazil accumulated huge foreign exchange reserves during the Second World War, for the usual reasons prevailing at such times. Since part of the income created through the acquisition of this foreign exchange by the Bank of Brazil was not frozen and economic productivity declined owing to the difficulty of obtaining supplies from abroad, the first half of the forties witnessed an intensification of the inflationary process. Consequently, at the end of hostilities, heavy pressure was exerted by the previously restricted demand for imports of consumer and capital goods to replace industrial equipment that had worn out during the war years. A liberal import policy was adopted at that time in a buoyant foreign exchange situation, exchange parity being established at the level prevailing before 1930. This policy derived its main support from pent-up demand; however, as Mr. Furtado has so aptly pointed out,<sup>3</sup> it was largely founded on the belief that the inflationary process could be arrested by reducing the high costs of domestic industry through intensified competition from goods imported at a low rate of exchange. However, restoration of the parity level obtaining before the 1929 Depression would have entailed a return to the import coefficient prevailing at that time, and impossibility in view of the stagnation in the purchasing power of exports.<sup>4</sup> That being so, the exchange policy followed in 1945-47 led to a rapid drain on reserves, and by mid-1947 an external bottleneck was already appearing in the form of huge deficits in the balance of payments. However, although an appreciable proportion of the foreign exchange supply had

<sup>2</sup> Foreign trade flows were subject to a very small customs charge (specific tariff established in 1937 and reduced to negligible proportions by inflation) and a state government export tax with a legal maximum of 5 per cent *ad valorem*.

<sup>3</sup> Celso Furtado, *The Economic growth of Brazil* (University of California Press, Berkeley and Los Angeles 1963), pp. 239-241.

<sup>4</sup> *Ibid.*, pp. 238-240.

been squandered on imports of non-essential items and on the acquisition of obsolete foreign assets in the country,<sup>5</sup> the increase in the value of the financial reserves accumulated by enterprises during the war enabled them to re-equip and consolidate their position, since the exchange rate had not altered. This fact played a far from insignificant part in the definition of subsequent policy.

## 2. SOURCES OF SUPPORT FOR EXCHANGE POLICY

It has already been shown that the reappearance of deficits in the balance of payments led to the imposition of strict administrative control over imports instead of to a policy of currency devaluation. Some of the factors contributing to the adoption of such a decision, with its important repercussions on the subsequent evolution of the economy, are well worth a brief study. The factors responsible for the maintenance of this policy for as long as five years should also be brought out. Its duration was particularly notable in view of the fresh impetus gained by the inflationary process and the progressive elimination of the less profitable commodities from the export schedule.

In the first place, consideration should be given to the coffee problem. This is the sector that might have offered the greatest opposition to the policy of maintaining the exchange rate, since the rest of the exporting groups neither had nor have much weight in economic policy decisions. Nevertheless, in spite of the relative prejudices entertained by the coffee sector the fact remains that the exchange policy in force in 1948 met with no opposition in the external sector, which was still predominant in the domestic economy.

The coffee sector had just emerged from a prolonged depression and had already formed the habit of following the central policy dictated by the Federal Government. In 1948 it feared that currency devaluation might cause the bottom to drop out of the world coffee market. Moreover, in 1947-48 the pace of rising domestic prices had slackened off and a period of prolonged stability was expected. Thus the sector's subjection to a centrally-adopted official policy, the protection of this commodity on the world market and the expectation of stability made such an exchange policy initially attractive to the coffee sector. Later, when internal conditions were again marked by acute inflation the sharp spurt in the world price of coffee<sup>6</sup>—begun in 1948-49 when coffee stocks were exhausted—reduced to a minimum the pressure of the export sector in favour of an adjustment in the exchange rate. As a result of the improvement in the terms of trade, real income increased rapidly and the coffee sector did not lose any income, in absolute terms, to other interests in the export sector, although it did not appropriate all the benefits deriving from the export boom.

<sup>5</sup> A substantial proportion of the funds was used by the Federal Government to buy the old maritime-railway transport network constructed during the coffee era and owned by foreign enterprises, and also to write off the consolidated external debt contracted during the first three decades of the century under the international coffee protection policy.

<sup>6</sup> The world price of coffee rose from approximately 13 cents per lb. to over 70 cents between 1948 and 1954.

Furthermore, the exchange policy was encouraged by the fear that a free exchange rate would increase the incentives for domestic coffee production and speed up inflation. Under those conditions, the official line of reasoning was that domestic stability was strictly dependent upon the exchange rate, maintenance of which was therefore all the more desirable.

Lastly, reference should be made to those deriving most benefit from the existing policy. The administrative control imposed on imports of less essential consumer goods, together with the maintenance of the exchange rate in the face of rising domestic prices, meant in fact that the market was reserved for import substitution industries and that subsidies were granted for the operation and equipping of industrial units, concessions which greatly favoured the already considerable secondary sector established during the previous decades. Another parallel element of support for the exchange policy and one which has not, perhaps, been given due emphasis, is the import trade, which is not necessarily the same as the industrial sector. Access to import licences permitted goods imported at the official rate to be sold on the domestic market at a "stabilized" price. This was increasingly higher than the foreign exchange purchase price and made for the accrual of huge profits by importers, who carried considerable weight in the policy-making process. Such were the factors which made the foreign exchange viable during that period.

## 3. MAIN REPERCUSSIONS OF THE EXCHANGE POLICY

A main result of the combination of incentives to import substitution during this period was that industrialization took place on a predominantly extensive and far from integrated basis. The private sector took advantage of the fact that the domestic market was reserved for consumer goods. However, since the impetus towards industrialization did not derive from a process of rational selection of industrial opportunities, but emerged rather as the result of import restrictions, it can be asserted—at the risk of generalizing—that import substitution took place during that time in respect of the less essential items, particularly in the category of durable consumer goods. In addition, as has been shown, the gains in productivity resulting from the improvement in the external sector were absorbed primarily by the private sector. The public sector was not equipped, either financially or institutionally, to absorb a share of those benefits and, therefore, was unable to provide the growing infrastructure required to support this accelerated industrialization. The result was large-scale structural disequilibrium, especially in the energy-transport sector which continued to depend on the early investments of the primary export model.

The inadequacy of the public sector in this respect and its failure to realize the radical structural changes that were taking place, were responsible for a lack of complementarity in the dynamic industries and the resulting basic bottlenecks. Thus arose the main challenge to the development policy that was to be followed in the second half of the decade.

In this connexion, however, mention should be made of the principal exception namely, the steel industry.

During the Second World War, when military and strategic considerations commanded attention, steel manufacturing based on the use of blast furnaces was introduced in Brazil. Started in 1946, it matured as an industry precisely during the "spontaneous" phase of development and its action undoubtedly helped to bridge the gaps that existed in the new structure of industry.

Lastly, it would be as well to note the effect on the export schedule of an inflated exchange rate. With the exception of coffee, which brought in more in terms of money because prices had risen on the world market, the share of the so-called minor export items whose

sale abroad was subject to a subsidy payable by the Federal Government was gradually reduced.<sup>7</sup>

The burden of financing these exports—in 1952, cotton exports represented losses exceeding the fiscal imbalances of previous financial years—and the public sector's need to obtain fiscal resources from foreign trade flows eventually made it impracticable to continue with the exchange policy in force.

<sup>7</sup> The reduction in exports of minor commodities (cacao, cotton, pinewood, rice, castor bean, iron ore, sugar, etc.) is observable in that their share of the value of exports declined from 58.4 per cent in 1948 to 26.3 per cent in 1952. In the latter year coffee accounted for 73.7 per cent of total exports.

## II. THE FIRST APPROACH TO A DEVELOPMENT POLICY AND THE RECRUDESCENCE OF INFLATION (1951-54)

At the beginning of the fifties and concurrently with the political changes then taking place, a series of economic policy measures aimed at changing the structure of production was adopted, and as a whole represented the initial formulation of deliberate action to promote development. Before making a brief study of these measures, which in time came to constitute the main instruments of the Target Plan, it would be as well to point out some of the factors which guided the state's economic policy.

The first fact which stands out is, as previously noted, that the earlier disarticulated development process had brought to light a number of bottlenecks in the basic sectors, especially in energy and transport, and thus created clear cut and pressing targets for State action. Secondly, it should be remembered that the outbreak of hostilities in Korea aroused widespread concern at the prospect that the industrial sector should once again endure the restrictions to which it had been subjected during the first half of the decade. Fear that the international emergency should again curtail imported supplies spurred efforts to promote the diversification of industry in order to render the external sector less vulnerable. Lastly, it should be borne in mind that the measures adopted were so to speak, a natural continuation of the economic process that had been taking place; hence, there was no appreciable curbing of these efforts, but rather many interests combined to see that they were not interrupted.

Within this generally favourable picture, various projects aimed at stimulating economic diversification took shape in 1951-54. Some of them related to public investment in transport and energy. Attention had already been focused on this question in an earlier period, specifically in the programme for health, nutrition, transport and energy known as the "Plan SALTE" (*Sanidade Alimentação, Transporte, Energia*) which, however, was only implemented in part. On the other hand, as a result of the studies undertaken by the Joint Brazil-United States committee<sup>8</sup> and the promise of a foreign loan of

\$500 million for strengthening those sectors, various measures were put into effect. These include the revised National Road Plan, the programme for expanding the supply of energy in the Nordeste, the establishment of the Fundo Federal de Eletrificação, a study of the problems besetting the national coal industry and the programme for modernizing the merchant fleet and port facilities.

Moreover, the Banco Nacional do Desenvolvimento Econômico (BNDE) was founded in 1952 with the declared aim of promoting industrial reforms. In its first few years of operation it allocated the bulk of its resources (obtained from compulsory loans from taxpayers and other sources) to investment in infrastructure. In the second half of the fifties it concentrated on programmes for diversifying the industrial inventory.

In 1953 an important reform was effected in one of the key sectors of economic policy, namely, the exchange system. Directive No. 70,<sup>9</sup> modifying the system described in broad outline above, divided exchange operations into three markets, each with multiple exchange rates. The main import items were classified in five categories, with varying additional charges determined in auctions of foreign exchange. This entailed replacing the machinery for direct administrative control of applications by an aggregate supply of foreign currency for each of these import categories. In any case, some financial transactions and certain essential imports still benefited from a special exchange rate. As regards exports, the reform also drew a distinction between the different categories, bonuses being established for the lower productivity items with a view to diversifying the export schedule.

The main effects of the above-mentioned reform on the industrialization process were briefly, the following: (a) the reservation of markets for import substitution items was consolidated as a result of the rise in the price of imports included in the categories for which higher exchange rates prevailed; (b) the granting of subsidies (implicit in the categories ruled by lower exchange rates) for imports of capital goods and inputs necessary to industrial development; and (c) the possibility that the State, through the purchase and sale of

<sup>8</sup> The Joint Brazil-United States Committee, besides analysing Brazil's economy, drew up a total of 41 projects involving investment in infrastructure, which provided for the large-scale modernization and expansion of the railway and maritime transport system and the energy sector. Although this programme did not in the end receive the backing expected from the United States, which made it necessary to abandon the system of financing envisaged, many of its recommendations were adopted and served as a basis for subsequent achievements.

<sup>9</sup> The decisions taken by the Superintendencia da Moeda e Crédito (SUMOC) in relation to exchange, monetary and credit instruments are communicated to the public by means of circulars known as "directives".

foreign exchange, might once again absorb a share of foreign trade income.

Lastly, the establishment in 1954 of PETROBRAS, whereby the State assumed exclusive responsibility for the development of the petroleum industry, also merits attention. While this can be interpreted as the reaffirmation of an attitude deliberately favouring development, it subsequently helped to relieve the pressure on the balance of payments and to give a greater measure of autonomy to national efforts in a strategic sector.

As shown above, the years 1947-48 were marked by a slackening of the inflationary process. From 1949 onwards, however, domestic prices rose more swiftly, a development which is attributable to various factors that are worth dwelling on in view of the impact of inflation on the economic policy decisions during this particular period.

The first important rise in the price of coffee occurred in 1949 as a result of the exhaustion of stocks. It is common knowledge that the placing on the market of an additional supply of foreign exchange has an expansionist effect on the means of payment. In the interval between the growth of foreign exchange receipts and the additional supply of imports there may be inflationary repercussions of a conjunctural nature. In the case of Brazil, before the additional supply of imports could mitigate such inflationary pressures, a second important factor helped to expedite the process, i.e., the outbreak of hostilities in Korea. Independently of the rise in import prices, the prospect of a new phase of physical restrictions on international trade caused the Government to formulate a policy of heavy external borrowing in order to finance additional imports, particularly of capital goods and raw materials, with a view to increasing stocks. To facilitate these operations, official banks adopted a policy of easy credit, which permitted enterprises to reach during that period the highest investment rates in two decades.<sup>10</sup> Although such investments may in the long run have had the effect of reducing pressure on the import schedule, in the short term they intensified inflationary pressures. The rate at which prices increased climbed from 7.1 per cent in 1949 to 11.7 per cent in 1950 and 16.4 per cent in 1951.<sup>11</sup>

<sup>10</sup> Total investment in the years 1951 and 1952 accounted for 22.4 per cent of the gross domestic product.

<sup>11</sup> Annual rates of increase calculated on the basis of the general price index of the Getulio Vargas Foundation.

### III. 1954-55: A PERIOD OF TRANSITION

The expansionist policy followed in previous years, combined with factors of a structural nature, had produced a sharp increase in the rate of inflation, and the economic policy measures subsequently adopted in the early fifties were not such as to discourage this trend. The two years prior to 1956 were, on the whole, characterized by an attempt to bring economic policy back to its traditional pattern, that of ensuring stability through curtailment of over-all demand.

Various credit restriction schemes established during the period were short-lived. The principal restrictive action consisted in attempts to control monetary expan-

However, this private investment was not accompanied by a corresponding investment of public funds, thus producing the bottlenecks (energy and transport) of the system which further contributed to the upsurge of prices. Moreover, the supply of foodstuffs, which had been increasing at a satisfactory rate because of the additional land made available for agriculture, remained at a standstill for two years (1951-52), the only unfavourable period in the whole decade. The combination of these factors intensified the action of inflationary pressures, thereby stimulating the rising trend in prices. The substantial increase in the minimum wage in 1952—the real wage went up by 119 per cent in relation to 1949—and the 1953 exchange reform were other contributing factors.

All these pressures found the public sector relatively unprepared from the standpoint of taxation. The public sector had previously been able to maintain its share of the gross domestic product through the introduction of minor changes in the tax structure—e.g., *ad valorem* charges, frequent revision of specific tariffs, support for the most dynamic sectors and prompt collection of taxes—which made for greater flexibility. However, this share was adequate only for a State assuming no decisive responsibility in the process of structural changes.

Under these circumstances, as previously noted, a number of tax provisions were introduced as from 1952 with a view to overhauling the Government's financial machinery. Thus started the new phase which was to take definite form from 1956 onward. The following were the most important changes introduced: an increase in the fuel tax in 1952 (the funds being used for the road network programmes); a refundable surcharge on income tax in the same year, for the purpose of establishing a federal investment bank (BNDE); and the exchange reform provided for under SUMOC Directive No. 70, referred to above, which enabled the public sector to obtain earnings from the foreign exchange market. However, as will be seen later, these measures proved inadequate and Brazil found itself once again beset by acute budgetary disequilibria following an era of relative tranquillity in the late forties and in 1951-52.

Thus, the years 1948-53 were marked by a sharp rise in the rate of inflation—from 6.4 per cent in 1948-49 to 14.9 per cent in 1953—a rate which was to be maintained and even exceeded at the end of the decade.

sion, which constituted the focal point of economic policy action during those years.

From October 1954 to May 1955 private banks were compelled to turn over to the monetary authorities 50 per cent of the additional funds deposited by the public. This procedure was again applied, albeit less severely, at the end of 1955 and in mid-1956. Before discussing the reasons for the failure of these efforts, which would help to explain what happened in the next phase, it would be as well to mention the main factors underlying them: first, the fear aroused by the new wave of inflation referred to above; secondly, the reversal of the

trend in the external sector which, after permitting a substantial growth of the capacity to import, began showing symptoms of stagnation following a tightening of imports in the wake of the import substitution measures that had been taken; and lastly, the emergence of a new expansionist cycle in respect of domestic coffee production motivated by the rise in the price of this commodity, although production did not increase until after 1956 because of the heavy frosts which occurred in the intervening years.

Such factors conveyed an impressive picture of disequilibrium to those who, based on an orthodox diagnosis of the dynamics of the national community, endeavoured to correct it at the source by curtailing over-all demand.

These efforts, however, failed to remove the bottlenecks in the transport-energy sector, and resulted in a reduction of economic activity and a slowing-up of the growth rate. Their effectiveness in dealing with the specific problem of rising prices is doubtful. But the important point to be emphasized is the latent conflict between those practices and the forces already existing in the country. The economy was emerging from a phase of dynamic industrial expansion, and the surpluses accumulated in the urban sector were affected by an external bottleneck which opened up new opportunities for industrial enterprise. The decline in the level of economic activity would affect recently established branches of industry accustomed to high rates of expansion and productivity. Furthermore, private Brazilian enterprises were, and still are today, highly vulnerable financially to credit cuts, since nearly all their working capital needs are provided, directly or indirectly, by banks.

In the absence of a sufficiently selective system of imports and credits, any attempt at restriction would

be conducive to an abrupt and uncontrolled contraction of the most dynamic sector of the economy. This explains the violence of its reaction to the endeavours to introduce contractionist systems. Such efforts were short-lived. And they had an important by-product—the industrial sector was compelled to take stock of itself. In the struggle for survival, it was forced to define its objectives. Stability became a secondary problem; what mattered was the development and maintenance of economic activity. It repudiated restrictive systems; and it reaffirmed its position by the adoption of the Target Plan. By laying stress on growth, and relegating equilibrium to second place, it led the economy, in the second half of the decade, along the path of vertical industrialization.

It is curious to note that when the conventional systems of reducing over-all demand were adopted, they already bore within them the germ of an anomaly engendered by the public investment situation. The public sector, geared as it was to the objective of eliminating bottlenecks, incurred financial deficits while, through other channels, bringing private banking resources that had been frozen back into circulation, which to some extent counteracted the restrictive measures introduced. Such a symbiosis of conflicting aims weakened the hypothetical efficacy of the proposed stabilization systems.

The transitional phase described above, while demonstrating the obstacles and opposition to the application of traditional stabilization formulas, accumulated a wide range of objective and subjective factors which were to make for a radical change in the principles that had hitherto governed the line of action followed in favour of an energetic policy of industrial expansion and complementarity.

#### IV. THE TARGET PLAN (PLANO DE METAS), 1957-60

At the end of 1956, the Government formulated a wide range of sectoral objectives, known as the Target Plan or Plano de Metas, which represents the most substantial decision consciously taken on behalf of industrialization in the economic history of the country. During the next five years these objectives were to be the lodestar of economic policy, while, in some respects, in the course of execution of the Plan, its original postulations were surpassed, and it more and more definitely assumed the character of an industrial development policy.

The Plan accorded absolute priority to the building-up of the higher strata of a vertically-integrated industrial pyramid and of the basic social capital on which this structure rested. It was to give continuity to the import substitution process which had been developing during the two preceding decades.<sup>12</sup> It devoted no attention to the structural reform of the agricultural sector, whose previous evolution had not constituted a stumbling-block to industrialization. Thanks to the incorporation of new land, the supply of foodstuffs and industrial inputs of primary origin had increased faster than

the population.<sup>13</sup> In these circumstances, the Plan made only marginal reference to agriculture.<sup>14</sup>

Nor was the Plan concerned with the question of unsatisfactory income distribution. Social investment and expenditure were given little prominence.<sup>15</sup> And it was not until 1959 that the proposal to stimulate the dynamic development of the former primary exporting areas, untouched as they were by the industrialization process concentrated in the Centro Sul region, was substantiated, with the establishment of the Superintendencia de Desenvolvimento do Nordeste (SUDENE), a federal agency responsible for over-all planning in the principal problem area.

<sup>12</sup> In 1947-60, the production of the primary sector increased at an average annual rate of 4.6 per cent. During the fifties, the area under cultivation was enlarged by 56 per cent. These data indicate the steady growth of the sector on extensive lines. No improvement in the physical productivity of the land is registered in the same period for the majority of the staple crops.

<sup>14</sup> Of the total resources earmarked for the Plan, the proportion allocated to the whole set of objectives linked with the agricultural sector, including the fertilizer industry, was 3.2 per cent.

<sup>15</sup> All that figured in the Plan was a target for the training of technical personnel which would absorb little more than 3 per cent of the resources programmed.

<sup>12</sup> See "The growth and decline of import substitution in Brazil", *supra*, p. 1 *et seq.*

In briefest outline, the Plan postulated direct government investment in the energy-transport sector and in certain basic industrial activities, particularly steel making and petroleum refining, where entrepreneurial initiative had been found wanting; it also established increased benefits and incentives for the expansion and diversification of the secondary sector producing capital goods and inputs, which required a high capital intensity.

In face of these objectives, which implied a sweeping change in the structure of the economy, less importance was attached to considerations relating to price equilibrium, the balance-of-payments situation, and the "healthy" evolution of the monetary, fiscal and exchange sector, which became of secondary concern and was placed at the service of the industrialization process.

Thus, the Plan, besides advocating the concentration of investment in vertical industrialization, involved protection of the level of activity in the economy. The tremendous effort demanded is easy to understand, in view of the phase of stagnation through which the external sector was now definitely passing and the non-existence of voluntary savings on the requisite scale and of financial channels whereby they could be smoothly transferred to the sectors where expansion was contemplated. With a credit system basically geared to the service of a mercantile economy, and a public sector which had no efficacious instruments for tapping resources, the financing of the Plan was bound to entail an aggravation of the economic disequilibria already apparent. Lastly, in these introductory comments, attention must be drawn to the Plan's indifference to the reform of institutions and instruments. It simply did not raise the question. When, in the course of its execution, these aspects of the existing system created difficulties, solutions were sought in the light of a pragmatic rather than an analytical approach to the general implications of the innovations introduced.

#### 1. FACTORS UNDERLYING THE ADOPTION OF THE TARGET PLAN

A broader analysis shows that the Target Plan came into being as a result of the conflict between the industrial sectors and the attempts at a stabilization policy. At the risk of repeating some aspects already dealt with in the section on the 1954-55 transitional phase, it might be as well to emphasize some of the main factors underlying the Plan, as a useful aid to understanding how it was implemented.

As has already been pointed out, Brazil's economy in 1956 presented a disturbing picture of disequilibrium. The stagnation of the external sector, the new cycle of growth in the domestic production of coffee, the presence of serious fiscal imbalances and, in fact, the very magnitude of the disequilibria, would seem to have counselled prudence in determining the size and scope of the economic policy goals proposed by the new administration. However, such disequilibria did not prevent the formulation of a programme of investment which would entail a sharp rise in public sector expenditure and postulated a vigorous spurt in industrialization. Despite the long-term effect of reducing the pressure of the external bottleneck, the industrialization process would necessarily give rise, during execution of the programmes concerned, to increased imports of capital goods and industrial inputs, thereby accentuating the pressures on

the capacity to import. In short, the Plan not only turned its back on a stabilization policy, but, given the lines on which it was formulated, probably accentuated the disequilibria.

The choice of development instead of stability prompts the question: Why did Brazil follow this path instead of the policy adopted by other Latin American countries faced with a similar state of stagnation? In other words, why did it not accept what is usually termed International Monetary Fund (IMF) policy? There is no doubt that the problem is too complex for the question to be answered fully. On a purely abstract plane, both subjective and objective factors can be said to have determined the choice.

As a subjective factor, mention has already been made of Brazil's awareness of its economic problem as one of industrial development, a view taken both by private enterprise and the public sector, and supported by the better organized sectors of public opinion, marshalled under the banner of nationalism aimed at development.

Among the objective factors may be mentioned the pressures engendered by the lack of complementarity of the earlier industrialization process referred to elsewhere in the present study. To make this point clear, it should be borne in mind that the solution of these problems was of vital interest to the entrepreneurial sector. There was no conflict between economic policy aims and the interests of the most dynamic groups in the entrepreneurial sector. Further, the expansionist financing programme implicit in the Target Plan, far from affecting that sector's interests as a system for the tapping of savings by means of taxation or the issue of public credit bonds might have done, opened up attractive financing possibilities for Brazilian and foreign private enterprises.

Over and above all these supporting elements is the fact, peculiar to Brazil, that the earlier development process and the salient characteristics of the economy made the choice of these goals possible. This point deserves to be emphasized. The system followed by Brazil, whether because of the degree of industrial diversification achieved or because of the size of its market, in absolute terms, had already reached the stage where such a choice was feasible, particularly since it was possible to rely on support from abroad, a fact of strategic importance at this juncture. In other words, as opposed to what happened in other Latin American countries, Brazil's economy had a wider radius of action which enabled it to evade the dilemma of "no development without stability" and permitted development to exist side by side with instability.

If the question is considered from a more practical standpoint, it is possible, by evaluating the individual targets, to identify more specific factors in support of the Target Plan.

As regards the first group of targets (energy-transport), it must be borne in mind that the Target Plan was merely an expansion and consolidation of programmes initiated in the first half of the fifties. The disequilibrium between the structure of private industry and the transport and electric energy generating systems became apparent late in the industrial expansion process. This was due to the nature of the industrial activities established during the period, which in the face of the relatively inelastic supply of such facilities, were able

to expand their production at rising costs, but were not limited in absolute terms by such a bottleneck. When the structural disequilibria became apparent and even critical, a redistribution of resources in favour of the public sector occurred, beginning with the establishment of BNDE and the Fundo de Reaparelhamento Econômico in 1952, and continuing with the exchange reform the following year. However, it was still necessary to expand investment on a disproportionate scale in the transport-energy system.

As to the setting up of basic intermediate industries, strong grounds persisted for obtaining effective entrepreneurial support. The non-selective character of the system of incentives for import substitution, which reserved a market for what in the eyes of the exchange authorities were not particularly essential items, led to the formation during those years of an industrial sector inflated with the less important categories of goods and highly dependent upon raw materials and other imported inputs. Undoubtedly the earlier establishment of a steel-making sector had lessened that dependence, and by 1954 efforts were being made to solve the problem of liquid fuel supplies by the installation of PETROBRAS, while some sectors producing raw materials (cement, paper, etc.) had, in general, expanded to fairly reasonable proportions. Broadly speaking, however, the growth of the intermediate goods industry had lagged behind that of the sector producing consumer goods. Consequently, for want of rational decisions on the use of resources, the economy had become even more vulnerable as a result of the inflexibility introduced into the import schedule. The industrial sector was aware of this. Because of the lack of aggressive action by private industry in respect of these categories, there emerges an industrial entrepreneur State which filled the gap and served to lessen the resistance encountered.

It will be seen, therefore, that in the face of such problems the industrial sector of the economy had no reason to oppose the adoption of a remedial programme. On the contrary, investments were imposed by the dynamics of the economy. In actual fact, the Target Plan merely gave final shape to a process whereby, since the beginning of the decade, the private sector had gradually delegated to the Government the powers and instruments through which to achieve industrial complementarity. Moreover, this system did not directly jeopardize the interests of any sector of the economy and, over the short-term, a group of enterprises benefited directly from the growth of public expenditure (important firms of contractors, government suppliers, etc.) and were therefore all in favour of the formulation of these aims.

A second set of objectives was related to the establishment of a sector producing capital goods. These aims were not so pressing, unlike those mentioned earlier, achievement of which was essential to the operation of the economy. Naturally, import substitution in respect of capital goods, besides its undoubted long-term advantages, altered the dynamics of the economy during implementation of the Target Plan. But it was not "necessary" in order to remedy the disequilibrium in the external sector, since during that period it acted as an additional factor exerting pressure on the demand for imports, which was only eased by the adoption of an extremely liberal policy designed to attract foreign capital. However, even though the adoption of these aims was not "necessary" in that sense, it was undoubtedly

spurred by the earlier development process. On the one hand, Brazil's natural desire to establish industries typical of the mature economies and the absence of interests likely to be affected by competition provided local support for the adoption of this policy of incentives. On the other hand, the restricted demand for capital goods, particularly transport equipment, was conducive to the building up of interest, on the part of their former exporters, in the domestic production of these goods which could no longer be freely imported, a factor which indisputably played a part in the formulation of these objectives.<sup>16</sup>

While the attainment of the first objectives was vital to the economic system and the adoption of the second set found support in that very process, the specific aim of building a new capital city (Brasília) was formulated at the level of an autonomous government decision. Its adoption did not imply any preference on the part of private interests, in view of the nature of the material and financial resources tied up in the project, which would otherwise probably have been used to increase the number of dwellings built under the social security system.

The question might now be asked why the Government, in presenting a Plan which entailed so vigorous an investment effort and required such radical measures for the sectoral and institutional distribution of savings, did not at the same time evolve a plan for its financing, but preferred to seek a solution in the course of the programme's execution. A complete answer to this question would obviously fall outside the scope of this study. Nevertheless, this undoubtedly constituted the line of least resistance to the private sector's approval of the Plan. The mere formulation of a financing programme might have evoked opposition in that sector, which had already made it clear that it was not prepared to accept cuts in its expansion programmes.

It is interesting to note that at the time the Target Plan was adopted the economy was clearly passing through a phase in which the growth rate was slackening,<sup>17</sup> and the adoption of the Plan, with its empirical and expansionist financing systems, was precisely the factor to inject dynamic force into the private sector during the ensuing period. This gave rise *a posteriori* to a consonance of interests which the premature formulation of a financing programme, that would have been a drain on the private sector's resources, might have rendered impossible.

In this respect, it should be remembered that the acceleration of the growth rate—in other words, the success of the Plan—was a factor mitigating such disequilibria, dissolving through the Marginal increment in the gross domestic product the conflicts which might have impeded continuation of the Plan. Moreover, the inflationary financing programme implicit in the Plan, far from displeasing the entrepreneurial sector, earned its warm praises, since, despite the lack of financial institutions, it could thereby obtain the resources it needed to finance its expansion. This was obviously another point in favour of the Plan, which was borne out by

<sup>16</sup> For example, this was the principal factor underlying the adoption of the motor-vehicle programme (*Plano Automobilístico*).

<sup>17</sup> The growth rate of the real gross domestic product was 1.9 per cent, i.e., it was lower than the population growth rate. Thus in 1956 the real *per capita* product dropped by 1.1 per cent.

the resulting economic growth. In spite of the rise in the real wages of industrial workers, the inflationary process enabled private enterprise to tap forced savings by means of high profits and easy access to bank credit. This was made possible by the increment in the product which prevented the intensive inflationary process from turning into runaway inflation.

These considerations relate to the factors supporting the Target Plan, which proved decisive even as early as 1958 when they led to the rejection of the attempt to resume the traditional policy of stability advocated by IMF.<sup>18</sup> These aspects will be dealt with more fully later on in this study.

## 2. OBJECTIVES AND RESULTS OF THE TARGET PLAN

A more detailed study of the objectives attained reveals the effort made by the economy in the period under consideration, besides illustrating the radical process of structural reform undergone by the economic system. Although no reliable data are available on the significance of the Target Plan in terms of the investment effected under its aegis, the sixth of a series of progress reports on the economic rehabilitation programme (*VI Exposição sobre o Programa de Reaparelhamento Econômico*) presents estimates in terms of percentage shares in the gross domestic product, according to which the incidence of investment immediately

<sup>18</sup> Like its predecessors this policy, embodied in the *Programa de Estabilização Monetária para o período de setembro de 1958 a dezembro de 1959*, was short-lived and brought about a change in the conduct of Brazil's monetary and financial policy.

connected with the Plan ranged from 7.6 per cent in 1957 to 4.1 per cent in 1961. These figures, compared with the average rate of fixed investment, which in 1957-60 was 14.5 per cent of the gross domestic product, give some idea of the scope of the Plan. In addition, reflecting the type of investment effected, the public sector's contribution to fixed investment rose from 25.6 per cent in 1953-56 to 37.1 per cent in 1957-60—figures which do not fully reveal the role played by the State, since in the national accounts government enterprises are considered together with private activity.<sup>19</sup>

Although these indicators suggest the scale of the effort demanded of the economy, the composition of the Plan must be taken into consideration if the depth of the qualitative reforms which the country underwent is really to be probed. Moreover, it is here that the distinguishing features of the Target Plan come to the fore, since it probably constitutes Latin America's most comprehensive example of State action directed towards the establishment of a vertically-integrated industrial structure. Despite the deficiencies of the data presented in table 1, the estimate of the composition of investment requirements for the Plan clearly reveals the predominance of concern for the qualitative reform of the economy through the establishment of industries manufacturing basic inputs, of the important capital goods sector and of the necessary infrastructure in the shape of public utilities.

<sup>19</sup> For fuller information, see Anibal Villela, "As empresas do governo federal e sua importância na economia nacional, 1956-60", *Revista Brasileira de Economia*, XVI year, No. 1 (March 1962), pp. 97-113.

Table 1

BRAZIL: INVESTMENT REQUIRED FOR THE TARGET PLAN (PLANO DE METAS), 1957-61

Sector	Estimated cost of domestically produced goods and services (thousands of millions of cruzeiros)	Imported goods and services		Estimates of total investment (thousands of millions of cruzeiros)	Percentage of total
		Millions of dollars	Equivalent in thousands of millions of cruzeiros		
Energy .....	110.0	862.2	44.3	154.3	43.4
Transport .....	75.3	582.6	30.0	105.3	29.6
Food .....	4.8	130.9	6.7	11.5	3.2
Basic industries .....	34.6	742.8	38.1	72.7	20.4
Education .....	12.0	—	—	12.0	3.4
TOTAL	236.0	2 318.5	119.1	355.8	100.0

SOURCE: Banco Nacional do Desenvolvimento Econômico (BNDE), *VI Exposição sobre o Programa de Reaparelhamento Econômico*.

The various objectives pursued can be classified in four major groups. The first comprised direct Government investment in the transport system and the generation of energy. The second represented the expansion or installation of sectors of intermediate production, the steel-making target being the most outstandingly important. In the third group, the aim was the installation of the industries manufacturing capital goods; and lastly came the construction of the country's new capital city.<sup>20</sup> It is true that this classification does not cover

<sup>20</sup> The resources allocated to this objective are not included in table 1.

certain targets linked to the marketing and storage of agricultural products, nor the expansion of iron ore exports and other objectives relating to primary activities; nor does it take any account of social investment. However, the relative importance of these is so small as to warrant merely marginal reference to them in the presentation of the Plan.

### (a) Energy

The main effort seems to have been concentrated on the expansion of electric energy generating capacity. The failure of investment in this sector to keep pace with the

rising trend of private investment during the immediate post-war period (up to the end of the forties) had brought about a critical situation in the early fifties. Although this crisis had been rapidly overcome in 1954-56, thanks to the increase in installed capacity for the generation of electric energy, in support of the steady expansion of industry,<sup>21</sup> provision had to be made for the maintenance of an average annual growth rate in electric power production of over 10 per cent. To this end, the expansion target for installed electric power

<sup>21</sup> The installed capacity of 1,883,000 kW existing in 1950 was virtually doubled in the first half of the fifties, reaching 3,550,000 kW by 1956.

capacity and the corresponding distribution system was set at 5 million kW in 1960, while additional projects were to be initiated that would raise capacity by over 60 per cent by 1965. As can be seen in table 2, these objectives were to all intents and purposes fulfilled, no power supply shortage having been registered during the programme period. In view of the higher product-capital ratio of large-scale projects, efforts in the direction of constructing new hydro power stations were concentrated essentially in big plants. Because of the substantial resources required, the long maturity periods and the low rate of return, State was led to assume a more important role as a producer in the energy sector.

**Table 2**  
**BRAZIL: DATA ON THE EVOLUTION OF THE ENERGY SECTOR DURING THE PERIOD COVERED BY THE TARGET PLAN, 1951-62**

Year	Electricity: installed capacity (thousands of kW)		Crude petroleum (thousands of barrels daily)				Fuel imports (millions of dollars at 1955 prices)		Coal (thousands of tons)			Apparent consumption of coal according to its uses					
	As at 31 December	Annual increase	Domestic produc- tion	Domestic consump- tion	(3) x 100%	Refining capacity	Petrol	Fuel oil	Domestic produc- tion	Import	Total	Rail- ways	Navi- gation	Metal- lurgy	Thermo- elec- tricity	Produc- tion of gas	Other uses
					(4)												
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	
1951 .....	—	—	—	—	—	—	85.0	58.7	1 963	1 005	—	—	—	—	—	—	
1952 .....	—	—	—	—	—	—	102.9	69.2	1 960	885	—	—	—	—	—	—	
1953 .....	—	—	—	—	—	—	94.0	77.0	2 025	466	—	—	—	—	—	—	
1954 .....	2 806	—	—	—	—	—	102.5	93.6	2 055	468	—	—	—	—	—	—	
1955 .....	3 149	343	5.6	180.0	3.0	108.3	43.1	73.4	2 268	564	—	—	—	—	—	—	
1956 .....	3 550	402	11.1	199.8	5.5	108.3	26.1	71.4	—	—	—	—	—	—	—	—	
1957 .....	3 767	217	27.7	187.2	14.8	108.3	24.8	57.0	—	—	—	—	—	—	—	—	
1958 .....	3 993	226	51.8	215.3	24.1	108.3	36.2	66.3	—	—	—	—	—	—	—	—	
1959 .....	4 115	122	64.6	225.6	28.6	108.3	25.6	63.5	1 284	766	2 050	467.9	58.4	728.9	416.7	348.1	29.5
1960 .....	4 800	685	75.5	240.3	31.4	218.6	42.8	71.6	1 277	928	2 205	339.2	23.5	1 011.9	438.5	371.6	20.4
1961 .....	5 205	405	95.4	—	—	308.6	38.9	42.3	1 321	919	2 240 <sup>a</sup>	352.7 <sup>a</sup>	23.8 <sup>a</sup>	1 012.7 <sup>a</sup>	451.7 <sup>a</sup>	377.9 <sup>a</sup>	21.1 <sup>a</sup>
1962 .....	5 783	578	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1955/62 .....	—	2 978	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

SOURCES: Columns (1) and (2), BNDE, *XI Exposição sobre o Programa de Reaparelhamento Econômico*; Columns (3), (4), (5) and (6) Development Council (Conselho do Desenvolvimento) and National Petroleum Board (Conselho Nacional de Petróleo); Columns (7) and (8), "The growth and decline of import substitution in Brazil", *loc. cit.*,

table 15; Columns (9) and (17), Instituto Brasileiro de Geografia e Estatística (IBGE), *Anuário Estatístico do Brasil*.

<sup>a</sup> Provisional data, subject to revision.

With the creation of the State enterprise PETROBRAS in 1954, a petroleum policy had been defined which, on the one hand, aimed at complete import substitution in respect of liquid fuels, through the installation of refineries, and, on the other hand, envisaged the expansion of domestic production of petroleum through the establishment of a prospecting programme. In this context, the Target Plan consolidated the policy in question, since the proposed targets for the expansion of refining capacity and for domestic production of petroleum, by the end of 1960, were 308,000 barrels a day, and 100,000 barrels a day, respectively. The extent to which these objectives were attained can also be seen in table 2.

In addition, the programme for the energy sector contemplated a structural reform of the coal industry, which was in a critical situation owing to the introduction of Diesel engines on the railway network and the resultant slump in demand for the lower-grade types of coal, production of which was inevitable. Although the output of coal was not increased to 3 million tons by 1960, as had

been programmed, and in fact there was even a contraction in domestic production, during the execution of the Target Plan the bases were laid for a change in the internal composition of demand for coal, inasmuch as the construction of pithead thermoelectric plants was begun.

### (b) Transport

In the transport sector the aim of the Target Plan was to step up the process of remodelling the previous structure of transport, which was a legacy from the country's primary exporting phase. To this end, it provided for the concentration of investment in the re-equipment of the railway network, the extension and paving of highways and the improvement of port facilities, as well as the modernization of the merchant marine. The figures presented in table 3 indicate the scale of the objectives and the incidence of the programme for this sector.

Table 3

BRAZIL: GROSS INVESTMENT IN TRANSPORT AS A PERCENTAGE OF THE GROSS DOMESTIC PRODUCT

Period	Railways	Highways	Vehicles		Maritime transport (port facilities and shipping)	Air transport (aircraft and airports)	Total	
			Including private cars	Excluding private cars			Including private cars	Excluding private cars
1950-54 .....	0.82	1.25	2.00	1.34	0.15	0.13	4.35	3.69
1957-59 .....	1.04	1.74	2.75	1.90	0.19	0.16	5.88	5.03

SOURCE: APEC, *Estudos semestrais*, May 1963. Data quoted from a study published by the National Planning Commission (Comissão de Planejamento Nacional—COPLAN).

The railway equipment programme concentrated all the available resources on the improvement of conditions in the existing system, since the idea of the railways as a means of extending the frontiers of agriculture had been superseded by the concept of approach roads. Thus, the aim of the railway plan was to incorporate 440 Diesel-electric engines and 12,000 passenger carriages and goods wagons in the rolling-stock inventory, and to put down 791,000 tons of rails, 6,770 sleepers and 15 millions cubic metres of ballast on those sections of track where traffic density was highest. Another objective was to lay 1,624 kilometres of new track, for the inter-connexion of the old railway systems that had served as infrastructure to the export economies. In point of fact, not even the complete attainment of these targets, ambitious though they were, would have remedied the disequilibria in the sector; to do that, heavier investment would have been needed, as well as certain changes in railway policy. But, owing to financing difficulties, the rail transport objectives were not fulfilled in their entirety, especially as regards the purchase of coaches and wagons (only 7,052 were bought up to 1960) and the repair of the permanent way (about 80 per cent of the work contemplated was carried out). However, thanks to the introduction of Diesel engines and the improvement of traffic conditions, the volume of cargo transported increased by 21.7 per cent in 1955-60, and the number of passengers carried by 19.0 per cent, whereas the length of the network was extended by only 3.2 per cent (see table 4).

Table 4

BRAZIL: RAILWAYS, 1952-61

Year	Length of network (kilometres)	Freight carried (tons/kilometres)	Passengers carried (passenger/kilometres)
1952 .....	37 019	229 257	279 542
1953 .....	37 032	228 839	298 746
1954 .....	37 190	233 235	319 783
1955 .....	37 092	258 805	334 851
1959 .....	37 710	319 114	388 212
1960 .....	38 287	315 053	401 543
1961 .....	38 185	296 967	441 396

SOURCE: IBGE, *Anuário Estatístico do Brasil*.

In contrast with the railway sector, in which the results obtained fell short of the objectives, the road network developed at an astonishing speed in both length and quality, especially where federal and state highways were concerned. The total length of these latter increased by 47.7 per cent, while the paved network expanded by 351 per cent in 1955-61. The Plan covered only federal highways, establishing as targets, at the outset, the building of 10,000 kilometres of new roads, the improvement of 3,800 kilometres and the paving of 3,000 kilometres. In 1957 these objectives were broadened to cover the construction of 12,000 kilometres and the paving of 5,000 kilometres, while in fact, by the end

of 1958, the success of the programme was so notable that the paving target was increased by 5,800 kilometres.

From the data presented in table 5 it can be seen that this objective was achieved in full, since between 1955 and 1961 12,169 kilometres of federal highways were built and 7,215 kilometres paved.

**Table 5**

BRAZIL: LENGTH OF ROAD NETWORK, 1955 AND 1961

Specification	Length as at 31 December (kilometres)	
	1955	1961
<i>Federal highways</i> .....	22 250	35 419
Paved .....	2 376	9 591
Unpaved .....	19 874	25 828
<i>State highways</i> .....	54 048	77 293
Paved .....	757	4 542
Unpaved .....	54 291	72 751
<i>Municipal highways</i> ....	383 416	386 838
<b>TOTAL</b>	<b>459 714</b>	<b>499 550</b>

SOURCE: BNDE, *XI Exposição sobre o Programa de Reaparelhamento Econômico*.

With respect to maritime transport, the Target Plan made provision for investment in increasing the merchant marine and enlarging and equipping ports and harbours. In 1955, the situation of the Brazilian fleet, in respect of vessels with over 100 tons dead weight, was as follows: coasters, 315 (600,000 tons dead weight); ocean-going vessels, 20 (150,000 tons dead weight); tankers, 31 (217,000 tons dead weight); and river boats, 53 (23,000 tons dead weight). The Plan lays emphasis on coastal shipping and tankers, envisaging the incorporation of 200,000 and 330,000 tons dead weight, respectively. As to the ocean-going fleet, which accounted for only 11.2 per cent of total import cargo, the Plan contemplated the addition of a mere 30,000 tons dead weight. However, by virtue of provisions aiming at the more efficient utilization of available shipping capacity, the share of Brazilian vessels in import cargo rose to 18.7 per cent in 1959. Success was virtually complete with regard to the enlargement of the merchant marine. Between 1956 and the end of 1960, the vessels incorporated totalled 550,000 tons dead weight, distributed as follows: tankers, 299,000 tons; coasters, 179,000 tons; ocean-going vessels, 64,000 tons; and river craft, 8,000 tons.<sup>22</sup>

These investments were accompanied by a partial rehabilitation of port facilities, another notable bottleneck in the national transport system. The stagnation and even decline in this sector is clearly shown in table 6. The cargo transported in ships sailing under the Brazilian flag, which roughly corresponded to coastal traffic, dropped from 18,425,000 tons in 1934 to 15,647,000 tons in 1958.

The final solution of the port facilities problem is a complex matter, involving important administrative questions that cannot be settled without reference to difficulties connected with the merchant marine and not

<sup>22</sup> Data from Conselho do Desenvolvimento, *Relatório do Período de 1956-60*.

touched upon by the Target Plan, which was concerned only with the more strictly physical aspect of the problem, and envisaged an increase in the wharfages at various ports, acquisition of loading and unloading equipment, dredging in 23 harbours and purchase of dredging apparatus. From this point of view, the programme was successful, especially with regard to re-equipment and to the purchase of dredging apparatus, according to the report issued by the Conselho do Desenvolvimento. In terms of port traffic, however, the situation is still unsatisfactory, as can be seen in table 6.

**Table 6**

BRAZIL:<sup>a</sup> SHIPPING ENTRANCE REGISTERED TONNAGE, 1934-61  
(Thousands of tons)

Year	Domestic shipping	Foreign shipping	Total
1934 .....	18 425	29 106	47 531
1935 .....	18 592	27 275	45 867
1937 .....	20 876	29 164	50 040
1938 .....	21 001	30 258	51 259
1948 .....	18 374	26 058	44 432
1949 .....	17 281	27 923	45 204
1952 .....	18 025	32 594	50 619
1954 .....	16 728	36 689	53 417
1955 .....	14 974	35 863	50 837
1957 .....	16 928	38 308	55 236
1958 .....	15 647	40 958	56 605
1960 .....	—	—	59 294
1961 .....	—	—	60 985

SOURCE: IBGE, *Anuário Estatístico do Brasil*.

<sup>a</sup> Up to 1958, the following ports are included: Santos, Rio de Janeiro, Salvador, Recife and Rio Grande. From 1959 onwards all ports are included.

In the air transport sector no very serious problems have ever arisen, as it has always managed to keep pace with requirements. The objectives established comprised the renewal of the aircraft inventory, the expansion of proper aviation infrastructure and the establishment of an aircraft industry. Only in this last connexion was the programme unsuccessful, the industry in question being still in an embryo stage. The evolution of the sector can be traced in table 7.

**Table 7**

BRAZIL: CIVIL AVIATION, 1951-60

Year	Distances flown (millions of kilometres)	Number of passengers carried (millions of passengers/kilometres)
1951 .....	96.1	1 492
1952 .....	96.6	1 505
1953 .....	104.2	1 692
1954 .....	112.9	1 814
1955 .....	121.0	1 899
1959 .....	134.0	2 870
1960 .....	145.8	3 529

SOURCES IBGE, *Anuário Estatístico do Brasil*.

(c) *Intermediate industries*

The second group of objectives, relating to the sector manufacturing intermediate products, covered both the expansion of activities already existing in the country and the installation of new and important segments to complete the industrial inventory. Among the former, the most noteworthy are steel making and in a lesser degree, the cement industry.

In the field of steel making, a significant step had already been taken with the construction of the Volta Redonda mill by the Federal Government. In 1955, the industry's production capacity amounted to 1.2 million tons of steel ingots, and supplied approximately 80 per cent of the domestic market. Under the Plan, it was to be expanded to 2.3 million tons by 1960, and projects were to be embarked upon which would enable an output of 3.5 million tons to be reached by 1965. The aim was not to achieve self-sufficiency exactly, but to guarantee a sufficient supply for the needs of economic growth to be met without undue pressure on the balance of payments. Indeed, the volume of imports actually increased a little, in absolute terms, in the course of the period, as can be seen in table 8. This table also shows the complete success of the programme, not only with regard to the production of ingots, but also in respect of rolled products, where the objective was to double the 1955 output by 1960.

Table 8

BRAZIL: STEEL MAKING, 1956-61  
(Thousands of tons)

Year	Steel ingots		Rolled products	
	Domestic production	imports	Domestic production	Imports
1956 .....	1 365	339	1 074	242
1957 .....	1 470	509	1 130	383
1958 .....	1 659	279	1 304	205
1959 .....	1 866	651	1 492	499
1960 .....	2 279	558	1 707	434
1961 .....	2 485	433	1 928	331

SOURCE: BNDE, *XI Exposição sobre o Programa de Reaparelhamento Econômico*.

The cement industry in Brazil, like steel making, reached maturity as from the time of the Second World War, although its installation dates back to the beginning of the present century. In 1955, domestic production of ordinary Portland cement already amounted to 2.7 million tons, which corresponded to roughly 90 per cent of apparent consumption.

The Target Plan envisaged the expansion of production capacity to 5 million tons by 1960, with the aim of not only keeping pace with the growth of demand but also ensuring complete independence of external sources of supply. This objective was fully attained, as can be seen from the constant production and import data given in table 9.

The other input-producing sectors covered by the Plan were the non-ferrous metal, alkali, pulp and newsprint, rubber and fertilizer industries.

Table 9

BRAZIL: ORDINARY PORTLAND CEMENT, 1951-62  
(Thousands of tons)

Year	Domestic production	Imports
1951 .....	1 441	394
1952 .....	1 614	638
1953 .....	2 041	812
1954 .....	2 418	982
1955 .....	2 734	332
1956 .....	3 278	242
1957 .....	3 376	31
1958 .....	3 769	9
1959 .....	3 798	0
1960 .....	4 418	29
1961 .....	4 678	0
1962 .....	5 039	

SOURCE: For production, Sindicato da Indústria de Cimento; for foreign trade (imports), Ministério de Fazenda, Serviço de Estatística Econômica e Financeira (SEEF) (Ministry of Finance, Economic and Financial Statistical Service): data quoted by ECLA in "The growth and decline of import substitution in Brazil", *loc. cit.*

As regards non-ferrous metals, the chief problem stemmed from the lack of information on Brazil's sub-soil, only a few veins worth commercial exploitation having been identified. It was thus impossible to dispense with foreign trade, except in the case of tin, imports of which accounted for less than 15 per cent of the internal supply in 1961. However, the discovery of large deposits of lead, as well as new processes for obtaining zinc and nickel on the basis of ores that were plentiful in Brazil, gave a new impetus to production of these metals. Nevertheless, the strong element of uncertainty that still characterizes such prospecting precluded quantification of objectives. Accordingly, except in the case of aluminium, where the target was an output of 18,000 tons annually by 1960, the postulate was merely "expansion of production".

A glance at table 10 will enable the progress of the programme to be evaluated, satisfactory results being observable for aluminium, lead and tin. It should be stressed, however, that some projects with respect to zinc and nickel have been launched and are under way, so that prospects for 1961-65 are brighter. Only for copper is no medium-term solution yet in sight, other than recourse to foreign trade.

With respect to alkalis, the target was to complete the installation of the Companhia Nacional de Alcalis, a government enterprise with a production capacity of 140,000 tons. This was really a great stride forward, as in 1955 installed capacity in that sector had been only 35,000 tons. The progress of the work was held up, however, so that only in 1960 was the enterprise able to enter operation; by 1961, its production capacity was already 200 tons daily in the case of barilla (soda ash) and 247 tons a day in that of caustic soda, apparent consumption of these two products amounting to 246 and 460 tons a day, respectively.<sup>23</sup>

<sup>23</sup> Estimates presented in the *Relatório* of the Conselho do Desenvolvimento.

Table 10

## BRAZIL: DOMESTIC PRODUCTION OF NON-FERROUS METALS, 1953-61

(Tons)

Year	Aluminium	Lead	Copper	Tin	Nickel	Zinc
1953						
1954						
1955	1 664	4 027	399	1 203	39	—
1956	6 278	4 543	1 349	1 568	59	—
1957	8 837	7 046	1 960	1 423	68	—
1958	9 195	4 635	1 500	1 527	72	—
1959	15 187	5 526	1 800	1 530	89	—
1960	16 573	9 976	1 212	2 330	95	—
1961	18 467	12 527	1 659		95	—

SOURCES: IBGE, *Anuário Estatístico do Brasil*; Conselho do Desenvolvimento, *Relatório do período 1956-60*.

As regards the pulp and paper target, newsprint presented the chief difficulty, largely owing to the excessive facilities granted to the imported product. Thus, only in 1957, with the passing of the new Tariff Act, were better conditions established, such as a subsidy to the domestic producer; but even so, they were insufficient to ensure successful implementation of the programme, which postulated an output of 130,000 tons by 1960. Real production in that year, however, amounted only to 60,000 tons, or less than 50 per cent of the volume projected.<sup>24</sup>

In respect of pulp, the programme was relatively successful. The objective was to produce 260,000 tons in 1960, in which year the actual output was 210,300 tons, while in 1962 it rose to 298,300 tons, and satisfied approximately 87.3 per cent of apparent consumption.<sup>25</sup>

<sup>24</sup> Conselho do Desenvolvimento, *Relatório do Período 1956-60*.

<sup>25</sup> IBGE, *Anuário Estatístico do Brasil*.

The basic objective of the rubber programme (which aimed at an output of 65,000 tons in 1960) was the installation, by 1961, of a synthetic rubber factory with an annual capacity of 40,000 tons. This would seem to be the best way of solving the supply problem in respect of the input in question, since production of natural rubber has long been sluggish, with no prospect whatever of expansion over the medium term. In fact, output dropped from approximately 30,000 ton in the three-year period 1952-54 to under 23,000 tons in 1958-60.

The synthetic rubber factory was in the hands of PETROBRAS, which installed the plant near one of its refineries, with the capacity programmed and within the time limit set. It should also be pointed out that in 1959 a mixed company was established, under the control of the Government of Pernambuco to build and operate a synthetic rubber factory with an initial capacity of 20,000 tons. The assembly of the plant is

Table 11

## BRAZIL: APPARENT CONSUMPTION OF FERTILIZERS, 1950-61

(Thousands of tons of nutrient content)

Year	Nitrogenous fertilizers			Phosphates (P <sub>2</sub> O <sub>5</sub> )			Potassium (K <sub>2</sub> O)
	Production	Imports	Total	Production	Imports	Total	Imports
1950	0.75	13.44	14.19	6.0	44.84	50.84	23.52
1951	0.76	17.80	18.56	6.45	67.12	73.57	28.71
1952	0.83	9.76	10.61	8.44	38.48	46.92	15.35
1953	0.93	19.65	20.58	8.53	56.28	64.81	31.23
1954	1.27	16.49	17.76	12.08	65.31	77.39	28.35
1955	1.22	21.79	22.96	23.84	64.73	88.57	49.52
1956	1.39	28.85	30.24	23.55	70.01	93.56	41.63
1957	1.19	27.36	28.56	41.38	77.31	118.70	60.19
1958	2.58	38.81	41.40	53.48	89.87	143.35	65.08
1959	10.68	34.11	44.78	68.49	55.52	124.00	57.43
1960	17.73	51.04	66.76	77.43	54.16	131.60	106.15
1961	12.02	43.04	56.06	69.77	49.00	118.77	70.73

SOURCES: Carteira de Comercio Exterior (CACEX), Conselho do Desenvolvimento, BNDE, Departamento Nacional da Produção Mineral (DNPM), Serviço de Estatística Econômica e Financeira (SEEF), Sindicato de Indústrias de Automoveis e Caminhões do Estado de São Paulo (SIACESP), PETROBRAS and Companhia Siderurgica Nacional (CSN) (see Serviço de Publicações Fundação Getúlio Vargas, Conjuntura Econômica).

well under way. At the same time, projects for the rational cultivation of rubber trees were put into execution, with a view to a long-term solution for the problem of obtaining natural rubber.

For nitrogenous and phosphatic chemical fertilizers, the target established was an output of 120,000 tons in 1960. This unquestionably represented a significant advance, as in 1955 the contribution of domestic production had accounted for only 5 per cent and 12 per cent, respectively, of apparent consumption of nitrogenous and phosphatic fertilizers, whereas by 1960 the corresponding proportions had risen to 23 per cent and 58 per cent, respectively (see table 11). These results must not be over-estimated, however, as the low level of consumption of fertilizers in Brazilian agriculture is well-known.

#### (d) *Capital goods industries*

The group of targets relating to the production of capital goods embraces the motor-vehicle,<sup>26</sup> shipbuilding, metal-transforming and heavy electrical industries.

The decision to establish a motor-vehicle industry in Brazil was partly the result of earlier decisions which gave rise to the change mentioned previously in the structure of the transport system, whereby the share of road transport in the total cargo carried went up from 25 per cent in 1948 to 48 per cent in 1953.<sup>27</sup>

The fact that the target for the motor-vehicle industry was conducive to increasing the domestic content of vehicles constituted one of the major incentives to expansion of the metal-transforming industry. The motor-vehicle industry is known to have had a stimulating effect on other sectors because of the complex nature of its manufacturing process.

As an example may be cited the motor-vehicle parts industry which increased from 700 factories in 1955 to 1,200 in 1960. Investment in this sector, which up to 1956 was estimated at about \$117.1 million, amounted to 8,100 million cruzeiros and \$161.1 million in the 1955-60 period alone.

It would have been difficult to increase the inventory of lorries under the conditions imposed by the external bottleneck if this industry had not been established in Brazil. There is no doubt that, despite any reservations regarding the way in which it was set up, the establishment of a motor-vehicle industry was one of the most important points of the Target Plan.

Up to 1955 activities in this sector were confined to the production, by the Fábrica Nacional de Motores, of approximately 2,500 lorries a year, with a domestic content coefficient of 54 per cent in terms of weight, and to the assembly of vehicles and the manufacture of parts. As indicated above, the target in respect of motor vehicles was two-fold. It concerned both production goals and domestic content coefficients. As regards production, it contemplated the manufacture in 1957-60 of 347,000 vehicles, as broken down in table 12. As to domestic content, the aim was to achieve by 1960 import substitution in respect of approximately 90 per cent of the vehicle parts in terms of weight. The investment en-

<sup>26</sup> This industry is included in the sector producing capital goods because lorries accounted for a high proportion of production during the period under review.

<sup>27</sup> ECLA, *La creación de la industria automovilística brasileña analizada como un caso de programación sectorial* (ST/ECLA/CONF.11/L.31).

visaged, calculated on the basis of projects approved by the Grupo Executivo da Indústria Automobilística (GEIA), amounted to 17,300 million cruzeiros and \$332.4 million. The target was practically wholly attained, both in respect of production and domestic content coefficients, as can be seen from table 12.

**Table 12**

BRAZIL: MOTOR-VEHICLE INDUSTRY  
A. Targets and actual output, 1957-60  
(Thousands of units)

Type of vehicle	Target	Actual output
Lorries and buses.....	170.8	154.7
Jeeps .....	66.3	61.3
Utility trucks .....	52.6	53.2
Private cars .....	58.0	52.0
TOTAL	347.7	321.2

B. Domestic content coefficients, in terms of weight  
(Percentages)

Type of vehicle	Envisaged for 1960	Attained 30/6/62
Private cars .....	95	89.3
Light lorries .....		
Medium lorries .....	90	93.0
Heavy lorries .....		
Buses .....		86.4
Utility trucks .....	90	94.3
Jeeps .....	95	90.9

SOURCE: Conselho do Desenvolvimento, *Relatório do período 1956-1960*; IBGE, *Anuário Estatístico do Brasil, 1962*.

It should be pointed out, moreover, that in 1960 GEIA approved projects for the manufacture of tractors, mainly of the light and medium types, with a programmed output of 31,000 units in the first two years of the industry's operation, that is, from 1960 onwards. It further established the initial domestic content coefficient of 70 per cent, in terms of weight, which was to reach 95 per cent in 1962. As can be seen in table 13, the results obtained fell far short of the target.

**Table 13**

BRAZIL: PRODUCTION OF TRACTORS, 1960-62  
(Units)

Year	Light	Medium	Heavy	Total
1960 <sup>a</sup> .....	—	37	—	37
1961 .....	25	1 573	80	1 678
1962 .....	1 984	4 779	823	7 586

SOURCE: IBGE, *Anuário Estatístico do Brasil, 1963*.

<sup>a</sup> Production was initiated in December.

A similar target to that of the motor-vehicle industry, although on a more modest scale within the context of the Plan, was established for shipbuilding; it was more modest to the extent that greater emphasis was placed on the road transport programme than on maritime and inland waterway transport; and similar, in that it also gave dynamic impetus to the other industrial sectors, even though no domestic content coefficients were programmed. Up to 1957 the whole industry was confined to a few shipyards capable only of producing small vessels and of making minor repairs.

The target envisaged was the establishment of two shipyards for the production of large vessels, and the re-equipping of fourteen others already in existence with a view to providing the country with a total nominal capacity of 130,000 tons annually, which was later increased to 160,000. It also contemplated the construction of three dry-docks for ships of up to 35,000, 10,000 and 5,000 tons respectively. The cost of this programme was estimated at 806 million cruzeiros and \$8.6 million. Up to 1960 the Group Executivo da Indústria de Construção Naval, later known as the Conselho Coordenador da Indústria de Construção Naval, had approved 12 projects, two of them for the installation of large shipyards with an annual capacity of 60,000 tons and 40,000 tons respectively. The projects approved up to 1960 totalled a nominal capacity of 158,000 tons annually, excluding one for the production of dredges and one for ship repairs.

Several orders have already been placed with the incipient industry, and by 1960 a 1,550 ton ship was launched. The domestic content, in terms of value, attained by the three main shipyards in 1963, excluding the engine, propeller, propeller-shaft, ball-bearings and gears, was over 50 per cent, and in many cases more than 90 per cent.

The final objective in regard to the production of capital goods was the establishment of the metal-transforming and heavy electrical equipment industries. Up to 1955, nothing existed on those lines except for the production of electrical household appliances, light equipment, small generators, motors and other small machines and appliances. This state of affairs would obviously have to alter as a result of electrification programmes, the establishment of a domestic motor-vehicle industry, etc., and, in short, of a policy aimed at the vertical integration of Brazil's industry.

Thus the Target Plan provided for the installation and expansion of the heavy metal-transforming, heavy electrical, and machine-tool industries, without however quantifying their objectives. According to the Conselho do Desenvolvimento,<sup>28</sup> in 1955-60 the production of machinery and equipment in general increased by over 100 per cent, and that of heavy electrical equipment by more than 200 per cent, with this sector producing a great many capital goods that were formerly imported. Estimates presented in the three-year plan (Plano Trienal) show that the efforts made had already reduced the import content of the over-all supply of capital goods to approximately one-third by the end of the decade.<sup>29</sup>

<sup>28</sup> *Relatório do período 1956-60.*

<sup>29</sup> This proportion was calculated on the basis of the value in cruzeiros of capital goods in 1958. The figure shows the domestic component as higher than it really was owing to the heavy import subsidies granted at the time.

The main obstacle to the establishment of this sector in a developing economy such as Brazil's is the size of the market, since the technological problem has been overcome fairly easily. The tendency has therefore been to establish industries for the production of machinery and equipment that are in fairly widespread use—e.g., generators, electric motors, furnaces, etc.—and to place less emphasis on the manufacture of the more specialized types.

It is difficult to quantify the installed capacity of this type of industry because of its highly flexible production lines. In this respect, achievements during the period covered by the Plan can be assessed only approximately on the basis of the production potential existing in 1961 and in the light of the fact that in 1955, with the exception of machine-tools, the sector was at an incipient stage of development. Tables 14, 15, 16, 17 and 18 contain certain illustrative data on equipment for petroleum refining, electric power generation, cement production, and pulp and paper production, and on the machine-tool industry, based on research undertaken by ECLA.<sup>80</sup>

**Table 14**

BRAZIL: EQUIPMENT FOR PETROLEUM REFINING AND THE PETROCHEMICAL INDUSTRIES, 1961-70

Equipment	Average annual requirements in 1961-70	Production capacity in 1961
Storage tanks .....	55 600 tons	45 000 tons/year
Pressure vessels—cyclones; large-diameter tubes; expansion joints .....	7 178 tons	7 000 tons/year
Heat exchangers; surface condensers .....	100 700 m <sup>2</sup>	35 300 m <sup>2</sup> /year
Steam generators—direct-fired furnaces (upright)	31 600 m <sup>2</sup>	41 000 m <sup>2</sup> /year
Metal structures—direct-fired furnaces (horizontal)	11 410 tons	53 500 tons/year

SOURCE: *The manufacture of industrial machinery and equipment in Latin America. I. Basic equipment in Brazil*, op. cit., tables 9 and 11.

**Table 15**

BRAZIL: EQUIPMENT FOR ELECTRIC POWER GENERATION, ON THE BASIS OF EXPANSION PLANS,<sup>a</sup> 1961-71

(Tons)

Equipment	Probable demand	Estimated domestic output
Turbines .....	48 860	42 700
Generators .....	65 310	68 500
Step-up transformers .....	15 798	23 770

SOURCE: *The manufacture of industrial machinery and equipment in Latin America. I. Basic equipment in Brazil*, op. cit., tables 23, 25 and 27.

<sup>a</sup> Estimated based on expansion plans.

<sup>80</sup> *The manufacture of industrial machinery and equipment in Latin America. I. Basic equipment in Brazil and II. The machine-tools industry in Brazil* (United Nations Publications, Sales Nos.: 63.II.G.2 and 63.II.G.4).

Table 16

BRAZIL: EQUIPMENT FOR THE PRODUCTION OF CEMENT,  
1962 AND 1970

(Tons)

Year	Probable demand	Production capacity
1962 .....	12 970	11 400
1970 .....	29 100	11 400

SOURCE: *The manufacture of industrial machinery and equipment in Latin America. I. Basic equipment in Brazil*, op. cit., tables 23, 25 and 27.

Table 17

BRAZIL: EQUIPMENT FOR THE PRODUCTION OF PULP AND PAPER<sup>a</sup>  
(Tons)

Period	Demand	Production capacity
1961-65 .....	18 500	20 500
1966-70 .....	31 700	20 500
TOTAL	50 200	41 000

SOURCE: *The manufacture of industrial machinery and equipment in Latin America. I. Basic equipment in Brazil*, op. cit., table 50.

<sup>a</sup> Covers only specialized equipment used in this industry.

Table 18

BRAZIL: PRODUCTION AND IMPORTS OF MACHINE-TOOLS, 1955 AND 1961  
(Tons)

Type	Production		Imports	
	1955	1961	1955	1961
Lathes .....	2 681.9	5 265.0	1 665.8	2 911.5
Milling machines .....	42.2	289.8	585.2	2 288.6
Drilling machines .....	164.9	794.9	495.2	2 696.8
Shapers and planers .....	498.4	1 369.4	196.7	756.1
Threading machines .....	3.6	35.0	63.2	182.0
Cutting machines (saws) .....	19.5	342.4	87.8	174.9
Grinding machines .....	3.0	57.1	632.8	2 042.0
Tool-grinding machines .....	—	69.3	...	...
Presses .....	...	3 890.0	...	...
Pneumatic hammers .....	...	24.8	...	...
Machines for sheet .....	...	1 071.2	...	...

SOURCE: *The manufacture of industrial machinery and equipment in Latin America. I. Basic equipment in Brazil*, op. cit., tables 41 and 35.

## (e) Brasília

One of the most important points included in the Target Plan was the construction of a new capital city in the interior, not because it was an urgent undertaking, but because of the magnitude of the resources involved and the political impetus it provided. None the less, the economic aspects of the project were by no means insignificant from the standpoint of what it represented in the way of expanding the scope of the economic system. This was due primarily to the building of a road network which opened up large expanses of the national territory, as can be seen from the following data taken from the December 1962 issue of the *Conjuntura Econômica*:

	Length of road (km)
Belo Horizonte-Brasília .....	700
Goiania-Brasília .....	200
Belém-Brasília .....	2,000
Fortaleza-Brasília .....	1,500
Acre-Brasília .....	2,500

It is difficult to calculate the amount invested in the construction of Brasília for want of official figures. Those available, at current prices, were estimated by the Getulio Vargas Foundation for the period between 1957 and mid-1962, as follows:

	Millions of cruzeiros
Public sector .....	139,000
Private sector .....	10,000
TOTAL	149,000

At 1961 prices, this expenditure was calculated to be between 250,000 and 300,000 million cruzeiros, which means that Brasília mobilized 2-3 per cent of the gross domestic product for that period.

How far this goal was successfully attained can be judged from the following data at 30 September 1961 contained in the 1962 Message to Congress:

Estimated number of inhabitants .....	200,000
Number of stone and concrete buildings .....	5,144
Number of buildings in process of construction .....	144
Installed power (kW) .....	16,200
Paved roads (km) .....	111
Number of telephones installed .....	5,750

## (f) Other targets

Other lesser objectives also merit attention.

Food targets did not, as might at first sight appear, take shape as an agricultural programme. No direct efforts were made to expand agricultural production, except in the case of wheat where, incidentally, they failed completely: production declined from 871,000 tons in 1955 to 370,000 in 1960, as against the output of 1,500,000 tons envisaged for that year.

It was sought to solve the problem through the expansion of marketing services and the manufacture of tractors and fertilizers—as already dealt with in other parts of this study. The only direct approach adopted vis-à-vis the structure of agricultural production was through a modest mechanization target, which resulted

in an increase in the number of tractors in use from 45,000 in 1955 to 77,362 in 1960, still an insignificant figure in relation to Brazil's total agricultural area. The question of meat supplies was dealt with only by a modest target for processing plants which, moreover, was not fully attained, as indicated in table 19.

It can be seen, therefore, that the daily slaughtering capacity increased from 15,300 head in 1955 to only 18,200 head over a period of five years. Nor were the marketing targets fully complied with, the failure to meet the goal in respect of cold storage plants being particularly notable, as shown in table 20.

Table 19

BRAZIL: INDUSTRIAL SLAUGHTERHOUSES, 1956-60

	Daily slaughtering capacity	
	Programmed	Attained
Cattle .....	2 750	2 200
Pigs .....	1 100	700
TOTAL	3 850	2 900

SOURCE: Conselho do Desenvolvimento, *Relatório do período 1956-60*.

Table 20

BRAZIL: IMPLEMENTATION OF MARKETING PROGRAMME, 1956-60

(Thousands of tons)

	Capacity	
	Increase envisaged	Actual increase obtained
Storage facilities and silos.....	800 000	569 233
Cold storage facilities.....	45 000	8 014

SOURCE: Same as table 19.

The target for increased iron ore exports was set at 8 million tons in the light of the possibilities of absorption by the world market. Exports in 1955 amounted to only 2,565,000 tons, valued at \$30 million.

Investment was mainly concentrated in transport and shipping systems under the direct responsibility of the public sector, as in the case of most of the production activities (75 per cent of the expansion envisaged was the responsibility of State-owned enterprises). Up to 65 per cent of the target was met, 5,240,000 tons being exported in 1960, or, in terms of value, \$53.6 million.<sup>31</sup>

### 3. CHARACTERISTICS OF ECONOMIC POLICY IN THE PERIOD UNDER REVIEW

The problems of furnishing the Target Plan with the necessary instruments for its execution will be dealt with in due course in a specific section. In the meantime, the matter in hand is to trace the main characteristics of economic policy in the period under review; and in particular, to see how it was possible to distribute the

considerable portion of real resources involved in the attainment of the objectives established in the Plan and to tap the nominal resources required for financing it.

In this context, the economic policy underlying the Target Plan may be broken down into four basic parts. The first consisted in the extremely favourable treatment accorded to foreign capital inflows. With this backing, it was possible to obtain, mainly through the inflow of loan capital, the external resources required for the Plan. The second was based on the expansion of the public sector's direct participation in domestic capital formation: an expansion supported not only by recourse to the traditional sources of public funds, but also, in the main, by a characteristically inflationary type of financing, chiefly to cover substantial extra-budgetary deficits, for which the Banco do Brasil, carried the direct responsibility. In the effort to channel private resources towards the areas considered to be of key importance under the Plan lay the third major aspect of economic policy in the period. The incentives not only made priority investments possible, but also reduced their cost; although one consequence was the private appropriation of a considerable proportion of the surplus built up during the period, another was the exertion of a positive influence on the channelling of private allocations in conformity with the objectives of the Plan. Finally, the fourth important feature of the economic policy under discussion was to be found in its approach to the problem of stability. By allowing a high rate of inflation—averaging about 20 per cent per annum—which, as has already been pointed out, was largely the result of the financing of public expenditure, the Plan provided private enterprise with a mechanism for tapping the enforced savings of the community which was valuable for its expansion projects. It was essential, however, that as the inflationary process evolved it should not take an exponential form which would render it useless from the standpoint of collection of resources. Thus, anti-inflationary policy overlooked the rapidity of the existing rate of inflation, but resorted to every expedient that, without removing the root causes of the rising price trend—which would have curtailed the possibilities of full implementation of the Plan—might serve to keep the rate in question within operational limits. By means of innumerable devices which will be described below, a successful attempt was made, in the second half of the fifties, to compromise with the inflationary process by reducing the more superficial tensions to a minimum, and so postponing the date of its acceleration. This promoted what has rightly been described as the race between the Target Plan and the inflationary process.

The triumph of the Plan in this day-to-day contest with inflation, which served its immediate ends and yet hung over its future like the sword of Damocles, was partly attributable, as has already been shown, to the high rate of growth attained. By allowing the real wages of the population with political power to increase, it prevented the second half of the fifties from witnessing a recurrence of the relative defeat suffered in 1952, when an abrupt and substantial upswing in wages had added fuel to the flames of inflation, after a three-year period in which wage controls had whittled away the real income of the lower strata of the urban population and had, in this respect, curbed the upward movement of prices.

<sup>31</sup> SEEF, Ministry of Finance, *Estatística do Comércio Exterior do Brasil*.

(a) *Foreign capital policy*

Before proceeding to a brief review of the measures relating to the inflow of foreign capital, it is as well to refer to the state of foreign trade in the second half of the fifties. Exports, which had grown substantially during the first five years by virtue of the rise in the price of coffee, reaching an average of \$1,566 million in 1951-54, followed a downward trend from 1955 onwards which showed no signs of being arrested.<sup>32</sup> Moreover, the commitments undertaken earlier demanded an additional effort to cover them,<sup>33</sup> which tended to aggravate the balance-of-payments situation.

It is therefore understandable that recourse was had to heavy external borrowing in the Target Plan period, as a means to obtaining some \$350 million annually for investment in the priority sectors covered by the programme.

From 1953 onwards, the Government adopted an extremely liberal policy in relation to the incorporation of foreign capital, in contrast with the policy followed in former years. All external transactions were effected through a free exchange market. In 1954 (Act No. 2145) and, more energetically, in 1955 (SUMOC Directive No. 113), provisions were established within this general framework whereby the Department of Foreign Trade (Carteira de Comércio Exterior—CACEX) was empowered, after technical study of the application concerned, to accord additional benefits, especially designed to attract the sectors of "particular importance for the development of the national economy". Briefly, the agency was entitled to grant a preferential exchange rate for remittance of profits and amortization on direct foreign investment, up to a limit of 10 per cent of the registered capital of the enterprise where profits were concerned. The registration of capital was effected on the basis of the free exchange rate, a concession which substantially raised the rate of return on investment,

<sup>32</sup> Exports reached an average of \$1,305 million in the three years 1957-1959.

<sup>33</sup> Amortization increased from \$108 million annually in 1951-54 to \$385 million in 1957-59.

in terms of foreign currency. With regard to external financing facilities, as long as they were not to be liquidated within a period of less than five years, a preferential exchange rate was likewise established for amortization payments and interest, provided that the latter did not exceed 8 per cent of the principal. Once the operation had been registered, the beneficiary enterprises could count upon priority and guarantees for transfers of foreign exchange abroad. All reinvestment was also registered as external savings. In both the private and public sector, imports of capital goods which did not require immediate exchange coverage by the monetary authorities were effected in conformity with these provisions. The public sector, during the introductory phase of the Target Plan, resorted to the instruments created by the preceding administration, in order to encourage industrialization in the sectors considered to be of major importance. The Government retained the right, within the context of an over-all policy which in itself was attractive to foreign investors, to grant greater concessions in specific cases.

The significance of this policy is obvious, in view of the fact that imported capital goods constituted an indispensable element in the type of industrialization process which the economy was undergoing, and that, in the absence of available export earnings, import requirements could not be fully met unless external financing were secured. Moreover, to enable the entrepreneur to invest in undertakings that were slow to mature, in default of a domestic capital market, external financing was the only possible solution. With this in mind, it is easy to understand why the manipulation of the foregoing expedients afforded the principal means of channelling private investment during the period covered by the Plan. In this connexion, it is interesting to note the high proportion of total external capital inflows represented by financing. In 1955-62, external financing for specific projects accounted for 81.7 per cent of total autonomous capital inflows.

Tables 21, 22 and 23 summarize the results of this policy.

(Table 21 appears overleaf.)

**Table**  
**BRAZIL: EXTERNAL RESOURCES<sup>a</sup> FOR**  
*(Millions)*

Sector	1955				1956				1957			
	Financing		In-vestment	Total	Financing		In-vestment	Total	Financing		In-vestment	Total
	With prior-ity	Without prior-ity			With prior-ity	Without prior-ity			With prior-ity	Without prior-ity		
Over-all total (A + B) .....	79.4	—	31.3	110.7	253.4	57.5	55.7	366.6	234.7	217.1	108.2	560.0
A. Total targets (I to V).....	78.1	—	15.2	93.3	241.1	57.5	16.4	315.0	204.8	217.1	47.7	469.6
I. Energy .....	40.4	—	2.5	42.9	23.9	—	—	23.9	67.2	—	0.7	67.9
1. Electric power .....	40.4	—	—	40.4	5.3	—	—	5.3	67.2	—	—	67.2
2. Nuclear energy .....	—	—	—	—	—	—	—	—	—	—	—	—
3. Coal .....	—	—	—	—	—	—	—	—	—	—	—	—
4. Petroleum (production) ..	—	—	2.3	2.3	—	—	—	—	—	—	0.7	0.7
5. Petroleum (refining) ...	—	—	0.2	0.2	18.6	—	—	18.6	—	—	—	—
II. Transport .....	31.4	—	0.0	31.4	82.7	—	0.0	82.7	105.2	—	0.8	106.0
6. Railways (repairs and re- equipment) .....	31.4	—	—	31.4	52.6	—	—	52.6	21.1	—	—	21.1
7. Railways (construction) ..	—	—	—	—	—	—	—	—	—	—	—	—
8. Highways (paving) ....	—	—	—	—	—	—	—	—	—	—	—	—
9. Highways (construction) ..	—	—	—	—	—	—	—	—	4.2	—	—	4.2
10. Ports and dredging.....	—	—	0.0	0.0	—	—	—	—	7.2	—	—	7.2
11. Merchant marine .....	—	—	—	—	10.8	—	—	10.8	23.4	—	—	23.4
12. Airlines .....	—	—	—	—	19.3	—	0.0	19.3	49.3	—	0.8	50.1
III. Food .....	—	—	1.4	1.4	8.1	—	0.4	8.5	7.3	28.9	3.3	39.5
13. Agricultural production (wheat) .....	—	—	1.1	1.1	—	—	0.3	0.3	—	—	2.2	2.2
14. Storage facilities and silos .....	—	—	—	—	—	—	0.1	0.1	7.3	—	1.1	8.4
15. Cold storage facilities... ..	—	—	—	—	2.0	—	—	2.0	—	—	—	—
16. Slaughterhouses .....	—	—	—	—	—	—	—	—	—	—	—	—
17. Mechanization of agricul- ture .....	—	—	—	—	6.1	—	—	6.1	—	28.9	—	28.9
18. Fertilizers .....	—	—	0.3	0.3	—	—	—	—	—	—	—	—
IV. Basic industries .....	6.3	—	11.3	17.6	126.4	57.5	16.0	199.9	25.1	188.2	42.9	256.2
19. Steel making .....	6.3	—	0.5	6.8	51.6	—	3.5	55.1	10.5	—	—	10.5
20. Aluminium .....	—	—	0.5	0.5	—	—	—	—	1.7	—	—	1.7
21. Non-ferrous metals .....	—	—	—	—	0.4	—	—	0.4	4.0	—	—	4.0
22. Cement .....	—	—	—	—	5.4	—	—	5.4	0.8	—	—	0.8
23. Alkalis .....	—	—	—	—	1.3	—	—	1.3	0.2	—	—	0.2
24. Pulp and paper.....	—	—	0.1	0.1	13.5	—	0.8	14.3	5.4	—	—	5.4
25. Rubber .....	—	—	—	—	—	—	1.0	1.0	—	—	5.0	5.0
26. Ores for export.....	—	—	1.4	1.4	3.9	—	1.7	5.6	—	—	1.4	1.4
27. Motor vehicle industry..	—	—	—	—	45.6	57.5	6.2	109.3	2.3	188.2	32.3	222.8
28. Shipbuilding .....	—	—	6.7	6.7	2.4	—	—	2.4	—	—	—	—
29. Metal transforming and heavy electrical equip- ment industries .....	—	—	2.1	2.1	2.3	—	2.8	5.1	0.2	—	4.2	4.4
V. Education .....	—	—	—	—	—	—	—	—	—	—	—	—
30. Technical personnel ...	—	—	—	—	—	—	—	—	—	—	—	—
B. Financing for purposes other than plan targets .....	1.3	—	16.1	17.4	12.3	—	39.3	51.6	29.9	—	60.5	90.4

SOURCE: SUMOC, *Relatórios*.

<sup>a</sup> Financing operations authorized by SUMOC and direct investment licenced by CACEX, in conformity with the Target Plan.

<sup>b</sup> For spare parts for the motor vehicle industry.

<sup>c</sup> For spare parts for the motor vehicle industry and agricultural machinery and implements (Decree No. 40 260, dated 1 November 1956).

## ECONOMIC DEVELOPMENT, 1955-61

(of dollars)

1958				1959				1960				1961		
Financing				Financing				Financing				Total Financing	Investment	Total
With priority	Without priority	Investment	Total	With priority	Without priority	Investment	Total	With priority	Without priority	Investment	Total			
392.4	115.0	82.5	589.9	354.7	42.9	65.8	463.4	242.1	62.8	106.8	411.7	128.1	39.2	167.3
372.5	114.9	72.1	559.5	349.3	40.1	53.7	443.1	228.0	53.6	84.8	366.4	117.1	27.5	144.6
133.7	—	—	133.7	95.7	—	—	95.7	64.2	—	—	64.2	19.1	—	19.1
122.7	—	—	122.7	54.7	—	—	54.7	54.3	—	—	54.3	13.9	—	13.9
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	2.2	—	—	2.2	—	—	—
—	—	—	—	23.0	—	—	23.0	—	—	—	—	4.1	—	4.1
11.0	—	—	11.0	18.0	—	—	18.0	7.7	—	—	7.7	1.1	—	1.1
185.4	—	1.1	186.5	74.8	0.3	0.0	75.1	41.0	—	—	41.0	46.4	—	46.4
104.6	—	0.7	105.3	0.3	0.3	0.0	0.6	9.2	—	—	9.2	32.1	—	32.1
47.2	—	—	47.2	—	—	—	—	—	—	—	—	—	—	—
8.9	—	0.4	9.3	—	—	—	—	—	—	—	—	—	—	—
6.1	—	—	6.1	0.1	—	—	0.1	—	—	—	—	—	—	—
6.8	—	—	6.8	15.0	—	—	15.0	—	—	—	—	—	—	—
—	—	—	—	23.7	—	—	23.7	22.1	—	—	22.1	14.3	—	14.3
11.8	—	—	11.8	35.7	—	—	35.7	9.7	—	—	9.7	—	—	—
4.5	11.3	0.7	16.5	1.5	8.2	—	9.7	3.0	39.2	12.2	54.4	0.3	4.0	4.3
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3.2	—	—	3.2	0.1	—	—	0.1	0.3	—	—	0.3	—	—	—
—	—	—	—	0.2	—	—	0.2	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
0.6	11.2	0.7	12.5	1.0	8.2	—	9.2	2.4	39.2	12.2	53.8	0.0	4.0	4.0
0.7	0.1	—	0.8	0.2	—	—	0.2	0.3	—	—	0.3	0.3	—	0.3
48.9	103.6	70.3	222.8	177.3	31.6	53.7	262.6	115.3	14.4	72.6	202.3	51.3	23.5	74.8
18.6	—	—	18.6	129.9	1.4	—	131.9	89.6	10.0	5.5	105.1	31.4	2.8	34.2
—	—	0.3	0.3	5.5	—	0.8	6.3	—	1.3	0.0	1.3	—	2.3	2.3
—	—	—	—	—	—	—	—	—	—	—	—	—	0.3	0.3
—	4.9	1.3	6.2	—	2.1	0.2	2.3	—	3.1	—	3.1	2.4	1.3	3.7
—	—	—	—	5.0	—	—	5.0	—	—	—	—	0.2	—	0.2
3.6	—	8.3	11.9	—	—	0.0	0.0	12.8	—	0.2	13.0	0.0	6.4	6.4
—	—	—	—	4.5	—	—	4.5	—	—	—	—	—	—	—
1.7	—	—	1.7	12.5	—	—	12.5	—	—	—	—	—	—	—
25.0	98.7	59.1	182.8	17.6	28.1	46.8	92.5	12.9	—	56.3	69.2	16.7	3.5	20.2
—	—	—	—	2.1	—	3.3	5.4	—	—	6.4	6.4	—	1.6	1.6
—	—	1.3	1.3	0.2	—	2.6	2.8	—	—	4.2	4.2	0.6	5.3	5.9
—	—	—	—	—	—	—	—	4.5	—	—	4.5	—	—	—
—	—	—	—	—	—	—	—	4.5	—	—	4.5	—	—	—
19.9	0.1	10.4	30.4	5.4	2.8	12.1	20.3	13.9	9.2	22.0	45.1	11.0	11.7	22.7

<sup>d</sup> Including, in addition to the financing operations quoted in footnote <sup>c</sup> financing authorized under the terms of Decree No. 42 820 (16 December 1957), article 7, paragraph II.

<sup>e</sup> As from the date of issue of Directive No. 208 (27 June 1961), all external financing operations were carried out through the free exchange market.

Table 22

BRAZIL: BREAK-DOWN OF AUTHORIZED FINANCING FOR SPECIFIC PROJECTS, BY FINANCING INSTITUTIONS AND SECTORS OF ACTIVITY, 1957-61<sup>a</sup>  
(In terms of millions of dollars)

Year	Foreign financing institutions	Over-all total	Basis industries	Crop and stock farming	Light industries	Transport	Communications	Public utilities	Other purposes
1957 Total		492.6	278.9	35.0	31.4	41.7	5.6	—	—
International (IBRD)									
Official		76.5	26.4	—	17.2	32.9	—	—	—
Eximbank									
Others									
Private		416.1	252.5	35.0	14.2	108.8	5.6	—	—
Subsequent reductions		—	—	—	—	—	—	—	—
1958 Total		495.7	284.9	—	19.2	173.8	8.6	9.2	—
International (IBRD)									
Official									
Eximbank									
Others									
Private		310.1	199.3	—	19.2	73.8	8.6	9.2	—
Subsequent reductions		—	—	—	—	—	—	—	—
1959 Total		369.4	332.0	8.2	1.2	13.0	—	15.0	—
International (IBRD)		13.4	13.4	—	—	—	—	—	—
Official		55.2	23.6	5.2	—	11.4	—	15.0	—
Eximbank		49.8	23.4	—	—	11.4	—	15.0	—
Others		5.4	0.2	5.2	—	—	—	—	—
Private		294.8	289.0	3.0	1.2	1.6	—	—	—
Subsequent reductions		6.0	6.0	—	—	—	—	—	—
1960 Total		304.9	205.4	36.5	1.3	44.4	5.9	6.0	5.4
International (IBRD)		—	—	—	—	—	—	—	—
Official		42.4	9.9	14.8	—	13.2	—	—	4.5
Eximbank		7.2	0.5	—	—	2.0	—	—	4.5
Others		35.2	9.4	14.8	—	11.0	—	—	—
Private		264.4	193.4	21.7	1.3	31.2	5.9	6.0	0.9
Subsequent reductions		2.1	2.1	—	—	—	—	—	—
1961 Total		130.2	76.7	—	2.3	48.2	0.2	0.2	2.6
International (IBRD)		—	—	—	—	—	—	—	—
Official		10.0	2.5	—	—	7.5	—	—	—
Eximbank		2.5	2.5	—	—	—	—	—	—
Others		7.5	—	—	—	7.5	—	—	—
Private		118.1	72.1	—	2.3	40.7	0.2	0.2	2.6
Subsequent reductions		2.1	2.1	—	—	—	—	—	—

SOURCE: SUMOC, *Relatórios*.

<sup>a</sup> Including spare parts for the motor-vehicle, tractor and telephone exchange industries, as well as imports of agricultural machinery.

**Table 23**  
(Millions of dollars)

BRAZIL: INVESTMENT AND SPECIFIC PROJECT FINANCING REGISTERED BY SUMOC, BY COUNTRIES OF ORIGIN, 1955-61

Country of origin	1955		1956		1957		1958		1959		1960		1961	
	Investment	Financing	Investment	Financing	Investment	Financing	Investment	Financing	Investment	Financing	Investment	Financing	Investment	Financing
Belgium .....	0.2		0.2		3.4		0.5	0.1	1.9	0.3	1.3	4.1	1.7	0.1
Canada .....	0.5		0.9		2.7		0.3	—	0.8	0.9	0.1	11.6	9.1	—
Federal Republic of Germany .....	7.1		17.3		8.7		19.0	99.4	12.2	44.5	25.3	55.8	4.9	20.0
Germany .....	0.8		4.9		1.3		—	13.9	8.1	25.9	6.6	30.1	0.7	11.5
France .....	2.2		1.5		1.2		0.5	19.6	3.3	30.2	2.9	34.5	0.9	8.7
Italy .....	—		0.0		3.7		0.2	26.2	3.3	99.0	8.1	1.1	0.0	10.8
Japan .....	0.7		1.3		0.2		0.2	6.8	0.7	0.0	2.7	—	1.4	—
Netherlands .....	0.9		2.1		14.7		0.6	0.3	5.6	2.4	9.1	0.2	4.6	4.6
Switzerland .....	5.1		2.0		6.4		0.9	3.0	4.0	21.2	3.2	10.4	1.9	3.6
United Kingdom .....	12.0		24.3		61.4		55.4	285.9	23.3	93.9	36.5	72.3	10.8	59.5
United States .....	1.8		1.2		4.5		4.9	52.2 <sup>a</sup>	2.6	44.9	11.0	82.7 <sup>b</sup>	3.2	9.3
Other countries .....	—		—		—		—	—	—	—	—	—	—	—
TOTAL	31.3		55.7		108.2		82.5	507.4	65.8	369.4	106.8	304.9	39.2	130.2

SOURCE: SUMOC, *Relatórios*.

<sup>a</sup> It should be noted that Pold's share in this amount was \$20.1 million.

<sup>b</sup> The high figure under the head of "Other countries" in 1960 is mainly attributable to the contributions of Yugoslavia (\$15.5 million), Czechoslovakia (\$12.2 million), Sweden (\$11.8 million), Spain (\$11.0 million) and Denmark (\$10.1 million).

**Table 24**  
BRAZIL: OPERATIONS IN FOREIGN CURRENCY (AUTHORIZED *avals*), 1952-62  
(Thousands of dollars)

Sector	Up to 1956	1957	1958	1959	1960	1961	1962	Total 1952-62	Percent- age
<b>Transport</b> .....	24 556	21 992	43 338	1 953	33 918	2 700	43 573	172 040	24.8
Railways .....	24 556	—	—	—	—	2 700	—	27 266	3.9
Highways .....	—	4 445	5 118	—	—	—	1 200	10 763	1.6
Airlines .....	—	13 485	9 630	—	33 918	—	42 373	99 406	14.3
Navigation, ports and dredging ..	—	4 062	28 590	1 953	—	—	—	34 605	5.0
<b>Electric power</b> .....	41 400	54 413	15 280	23 629	4 535	33 639	2 293	176 189	25.4
<b>Basic industries</b> .....	9 655	30 678	115 238	124 823	32 581	5 409	17 517	333 261	48.1
<b>Metallurgical industries</b> .....	1 860	8 467	104 454	113 537	30 322	5 089	—	263 729	38.1
Steel making .....	1 860	6 481	104 454	113 277	25 868	5 089	—	257 029	37.1
Non-ferrous metals .....	—	1 986	—	260	4 454	—	—	6 700	1.0
Metal transforming and engineer- ing industries .....	—	219	—	—	—	—	—	219	0.0
Manufacture of railway equipment	—	1 880	—	—	—	—	—	1 880	0.3
Motor vehicle industry.....	2 403	9 869	10 218	4 667	1 534	320	5 167	34 178	4.9
Shipbuilding .....	—	—	—	1 944	—	—	—	1 944	0.3
Manufacture of electrical equip- ment .....	—	—	—	—	—	—	—	2 692	0.4
Pulp and paper industry.....	2 692	10 243	—	175	300	—	12 350	23 068	3.3
Chemical industries .....	—	—	626	4 500	425	—	—	5 541	0.8
Miscellaneous .....	—	5 339	1 000	535	1 087	—	61	11 522	1.7
<b>Agriculture and ancillary sectors..</b>	3 500	—	—	535	1 087	—	—	1 622	0.2
Agriculture .....	—	—	—	—	—	—	—	—	—
Industrial slaughterhouses .....	—	—	—	—	—	—	—	—	—
Storage facilities and silos.....	3 500	5 339	1 000	—	—	—	61	9 900	1.5
Cold storage facilities.....	—	—	—	—	—	—	—	—	—
TOTAL	76 421	112 422	174 916	150 940	72 121	41 748	64 444	693 012	100.0

SOURCE: BNDE, *Relatórios*.

Apart from the incentives accorded under foreign capital legislation, the Government had in reserve another source of benefits in this sphere. Entrepreneurs were ensured access to external credit through BNDE's assumption of joint responsibility for the settlement of the external debt involved. The fact that its *aval* was in many instances decisive for the success of the external financing operation concerned endowed the Bank in question with powers to channel private investment, and in this respect constituted an essential element of the Target Plan's foreign capital policy (see table 24, page 177).

As the five-year period drew to a close, the depletion of the traditional external credit lines led to the adoption of certain emergency expedients as a temporary way out of an impasse in the external sector which might have frustrated some of the fundamental aims of the Plan. A case in point was the negotiation of the so-called "swaps", by virtue of which the Banco do Brasil handed over cruzeiros in exchange for a deposit in dollars, the depositor having the right to repeat the operation in reverse, at the same rate of exchange, at a given future date. Thanks to these practices, additional foreign exchange was obtained, and, although they represented one of the most burdensome means of tapping external savings, they did serve to relieve a difficult situation that constituted a threat to the Plan.

Considered as a whole, the foreign capital policy adopted under the Target Plan represents a set of expedients of great efficacy as regards the acquisition of the external resources that were vital to the success of the Plan, although the method of obtaining them made the cost to the nation very high. One of the dangers inherent in this policy, which has been the subject of much discussion, was that it might allow larger amounts than were actually incorporated to be entered in the accounts as capital from abroad. There was a risk that

part of the surplus generated within the economy might be appropriated by enterprises enjoying the benefits conferred under the law, in the form of a subsidy. The concentration of industrial activities was facilitated, since enterprises that had access to the legal benefits in question were thereby enabled to acquire control over others in the sector. But despite these drawbacks, an over-all evaluation of the policy should take into account the fact that it fulfilled its function as an instrument for the maintenance of imports of capital goods, at a juncture when it would have been difficult to adopt other systems.

(b) *Expansion of the direct participation of the public sector*

The purpose of the present section is to stress the quantitative aspect of direct State participation in the execution of the Target Plan. The qualitative aspects of this expansion and their implications from the standpoint of the instruments adopted, as well as the institutional reforms involved in such a broadening of the public sector's functions, will be discussed in another section of this document.

There is no point in recapitulating the causes which, in the under-developed countries, naturally bring about a disproportionate increase in direct State participation in the component flows of aggregate demand. Suffice it to say that whether on account of the growing requirements in respect of basic social capital, or because of entrepreneurial inertia with regard to the opening-up of certain sectors of industry, or owing to the stronger pressure for public utilities and social expenditure that accompanies urbanization, such an increase does take place. In the case of the Target Plan, the estimates of public investment originally formulated can be seen in table 25.

**Table 25**  
BRAZIL: PERCENTAGE BREAK-DOWN OF FINANCIAL RESOURCES FOR THE TARGET PLAN  
(1957 estimates)

	Energy	Transport	Steel making	Motor vehicle industry	Miscellaneous industries	Other targets
Federal budget appropriations <sup>a</sup> .....	27.4	67.8	10.06	—	6.9	60.2
State budget appropriations.....	21.6	0.3	12.18	—	—	5.6
Own resources <sup>a</sup> .....	40.2	19.4	24.2	92	65.8	24.5
Public financing .....	10.8	12.5	53.7	8	27.3	9.7

SOURCE: Target Plan, 1957.

<sup>a</sup>Including funds for application to specific projects.

<sup>b</sup>Including reserves and undistributed profits of government enterprises.

Getulio Vargas Fund estimates clearly show the extent of the ensuing increase. The Government's share in gross fixed capital formation (excluding that of State enterprises) rose from 25.6 per cent in the four-year period 1953-56 to 37.1 per cent in the four years covered by the Target Plan. As previously noted, this figure is not fully illustrative of the relative increase in the public sector's contribution to the savings-investment process, since the part played by State enterprises is not taken into account. If they were included, those of the Federal Government alone would raise the proportion in question

to 47.8 per cent in 1957-60. Of investment in the formation of inventories during the Plan period, 75 per cent would seem to have been attributable to the State, a figure which reflects the piling-up of coffee stocks. Lastly, according to data presented in the text of the economic and social development plan for the current three-year period (*Plano Trienal do Desenvolvimento Econômico-Social 1963-65*), the Government's share in consumer expenditure climbed from 14.3 per cent to 20.3 per cent between the years 1947 and 1960. During this period, the annual growth rate of consumption, in

real terms, was 8.3 per cent in the public sector as against the private sector's 5.3 per cent.

If this expansion is viewed from another angle, a change in the structure of credit operations can be noted. The share of the public sector in end-of-year loan balances rose from 15.3 per cent in 1954-56 to 19.5 per cent in the next three-year period. In the same interval, the Banco do Brasil likewise came to play a bigger part in total banking operations; by the end of the fifties, it was responsible for approximately half the total loans granted to the private sector. The increased participation of the official bank did not exclude the private sector from access to such resources, since the private sector benefited from the expansion of the Bank's operations. As enterprises came to depend more and more upon official loans, the State, at least in theory, played an increasingly important role in the channelling of economic activities. This will be more clearly apparent at a later stage in the present discussion.

This enlargement of the public sector's share in the gross domestic product involved additional responsibility for the financing machinery. Although traditional sources were drawn upon, a major proportion of the resources needed was obtained through expansionist channels, on the basis of substantial monetary deficits in the public sector, and the ensuing increment in total means of payment. The attempts at partial control of the proliferation of issues by the banking system enhanced the importance of the official Bank in credit operations.

(c) *Incentives to private investment in priority sectors*

The third pillar of the economic policy associated with the Target Plan was the concession of increased incen-

tives to private investment in the sectors covered by the Plan. These benefits can be summed up under three major heads. In the first place, access to external financing was guaranteed, on terms that were extremely advantageous, inasmuch as they implied a reduction of monetary investment costs. Secondly, long-term credits, granted at low rates of interest and with lengthly moratoria and amortization periods, covered a substantial proportion of fixed investment in priority sectors. Thirdly, the domestic market was reserved for the new industries to be installed.

The first group of benefits has already been briefly reviewed. An impression of the second can be formed with the help of table 26, which lists the ways in which domestic currency resources were applied by BNDE, the principal financing agency. It is important to stress that, given the sharp internal rise in prices, the granting of long-term credit at a low rate of interest resulted in an additional and unforeseen subsidy to the capital formation of enterprises, which made the obtaining of such loans a particularly attractive proposition.

The third set of benefits related to the reservation of the domestic market for the products of import substitution activities. Prior to the customs tariff reform of 1957, this reservation was based on exchange controls. Domestic production was protected by administrative measures of a discriminatory character. After the introduction of the reform, the protection mechanism became more efficient. Not only were imports subject to stringent quota systems, but also, for certain import categories, direct control of the supply of foreign exchange was maintained, and the institution of "registration of similar products" was established; once an industrial sector

Table 26

BRAZIL: APPLICATION OF BNDE RESOURCES (AUTHORIZED FINANCING OPERATIONS IN NATIONAL CURRENCY), 1952-62

Sector	Up to 1956	1957	1958	1959	1960	1961	1962	1952-62 Total	Percent- age
<i>Transport</i> .....	10 247.7	1 629.6	530.0	1 925.6	646.7	222.0	—	15 201.6	15.3
Railways .....	10 027.2	1 540.2	—	1 658.6	626.7	222.0	—	14 074.7	14.1
Navigation, ports and dredging...	144.5	89.4	330.0	267.0	20.0	—	—	850.9	0.9
Other means of transport.....	76.0	—	200.0	—	—	—	—	276.0	0.3
<i>Electric power</i> .....	3 050.7	4 668.1	5 548.8	3 583.9	1 366.6	15 703.8	10 706.1	44 628.0	44.9
<i>Basic industries</i> .....	1 598.6	1 838.9	5 679.7	4 339.0	11 482.6	7 175.7	3 738.8	35 853.3	36.2
<i>Metallurgical industries</i> .....	147.3	1 040.0	4 419.1	1 592.9	11 080.0	6 390.7	762.8	25 432.8	25.6
Steel making .....	93.0	590.0	4 039.0	1 409.2	11 040.0	6 128.0	762.8	24 062.0	24.2
Non-ferrous metals .....	12.3	450.0	249.3	13.0	—	262.7	—	987.3	1.0
Miscellaneous .....	42.0	—	130.8	170.7	40.0	—	—	983.5	0.4
Metal transforming and engineer- ing industries .....	15.0	25.0	222.8	47.0	—	82.0	36.0	427.8	0.4
Manufacture of railway equipment	50.0	—	47.0	91.8	60.0	—	—	248.8	0.3
Motor-vehicle industry .....	194.3	187.7	421.8	1 106.6	156.0	—	—	2 066.4	2.1
Shipbuilding .....	—	—	—	1 122.0	—	189.0	340.0	1 651.0	1.7
Manufacture of electric equipment	128.0	205.9	—	40.0	166.1	—	—	540.0	0.6
Pulp and paper industry.....	66.7	150.0	354.0	277.1	—	84.0	—	931.8	0.9
Chemical industries .....	933.3	230.3	200.0	61.6	—	400.0	2 560.0	4 449.2	4.5
Miscellaneous .....	—	—	15.0	—	20.5	30.0	40.0	105.5	0.1
<i>Sectors ancillary to agriculture</i> .....	483.9	309.1	483.2	184.0	59.1	771.0	1 328.0	3 618.3	3.6
Industrial slaughterhouses .....	94.0	200.0	25.0	184.0	46.5	31.0	50.0	630.5	0.6
Storage facilities and silos.....	299.0	109.1	458.2	—	12.6	340.0	942.0	2 160.9	2.2
Cold storage facilities.....	90.9	—	—	—	—	400.0	336.0	826.9	0.8
<b>TOTAL</b>	<b>15 380.9</b>	<b>8 445.7</b>	<b>12 241.7</b>	<b>10 032.5</b>	<b>13 555.0</b>	<b>23 872.5</b>	<b>15 772.9</b>	<b>99 301.2</b>	<b>100.0</b>

SOURCE: BNDE, *Relatórios*.

considered to have reached maturity had been entered on the register, no concessions were granted to imports of goods similar to the product it manufactured, even if they were covered by external financing.

Reference may also be made to an incentive of particular importance in connexion with the installation of the motor-vehicle and shipbuilding industries. Subsidized foreign exchange was granted for imports of inputs and spare parts used by these sectors, provided that certain requirements stipulated in the specific plans for their development were met.

All these incentives were not only conducive to the reduction of investment costs, but also substantially raised the rate of return on investment in priority sectors, either because components used in the production process were heavily subsidized, or because the tariff barrier established was high enough for prices to be fixed regardless of competition. It is understandable, therefore, that such a system, favourable as it was to concentration of the wealth and other benefits deriving from industrialization should have proved so attractive to entrepreneurs and induced them to respond so fully to the proposals embodied in the Target Plan.

#### (d) *The approach to the stabilization problem*

The guiding principle of the Plan can be deduced from a study of the characteristics of the monetary, exchange, tax, wage and price-fixing measures linked to the correction of inflationary disequilibria. That is, from observation of the use of these instruments some idea can be formed of the importance attached by economic policy to the primary objective proposed—diversification of industry. It is clear that stabilization measures were of secondary concern compared with the promotion of the desired changes in the structure of the economy.

Consideration of the short-term measures adopted will show that provisions aiming at stabilization were contemplated in so far as they did not affect the attainment of the objectives proposed. When a choice had to be made, it was always unequivocally in favour of industrial development. In fact, no parallel, even if limited, action was taken to control the existing disequilibria. The exchange instruments, the measures of credit and budgetary policy, and so forth, which can, indirectly or directly, exert a stabilizing influence, were almost invariably diverted to purposes other than that of curbing the rise in prices. They were not brought into parallel operation in conformity with a stabilization hypothesis. As will be seen below, action in this field was basically concerned with the provision of an efficient financing system for the Plan or with the creation of political conditions favourable to its execution.

Indeed, it was not only anti-inflationary policy<sup>34</sup> in the period under consideration that was subordinated to the Target Plan. The way in which the latter was formulated implied a sharpening of the upward trend of prices. It was inevitable that the effort to bring about

<sup>34</sup> The term is used here to cover all measures whose motive or principal justification was the control of price increases. It is not their degree of rationality that is the criterion for their inclusion, but their motivation. Under this head are also grouped a series of measures which ultimately, as a rule, had a restraining effect on inflation (through price control) and which aimed at postponing a rise in the level of prices without eliminating its determining factors.

so radical a qualitative change should give rise to partial maladjustments, unforeseeable even in the most strictly scientific type of planning, and still more so under the empirical systems then in process of constitution. This was not, however, the most important aspect of the inflationary potential of the Target Plan. In default of a system of voluntary savings—a Utopian ideal in an under-developed country—the proposed industrial effort presupposed the formation of compulsory savings and would probably set in motion the mechanisms whereby inflationary pressures are propagated.

On the basis of an estimate to the effect that investment under the Plan accounted for only 40 per cent of the public sector's total investment, and that one-third of it would have to be financed by external resources, and not, therefore, through inevitable price increases, it has been said that there was no reason why, in such circumstances, the execution of the Plan should aggravate inflationary movements; and that the upward trend of prices stemmed from misguided economic policy. Even if a figure is accepted which disregards induced investment under the Plan and which takes no account of the longer average maturity periods of the investments postulated, this argument seems to be groundless. The inference is that the Target Plan would largely represent an alternative to other investments that would not be effected whereas in reality it laid additional responsibilities, in absolute terms, on the public sector in the savings-investment process.

Whatever the extent to which the subsequent implications were realized, the lack of concern with the general problem of stabilization was manifested in the failure to take the previous inflationary movement into consideration, and in fact that the Plan proposed an additional investment effort in projects with long maturity periods, without making scrupulously precise provision for the corresponding financing system. In the course of the implementation of the Plan, in so far as external conditions became relatively less favourable, the aggravation of certain disequilibria provided further evidence of the secondary and accessory status of anti-inflationary policy.

Irrespective of the weight attached to the autonomy of policy decisions in the establishment of the Target Plan, the fact remains that it was decided, not to reduce the amounts invested with a view to the control of inflation, but to strengthen the investment effort. The task of removing the obstacles to this course was assigned to short-term measures. They were to defer and attenuate such inflationary pressures as might be prejudicial to long-term programmes.

To sum up, the existence of an inflationary process and the relative deterioration of external conditions seemed to make stabilization an imperative objective. Yet the Plan did not appear to regard the problem as relevant. Quite the reverse: inasmuch as, at the time of its formulation, a certain "radius of action" was assumed, its decisions were more inclined to aggravate the inflationary process through the inclusion of investments of dubious urgency and priority, such as the building of Brasília. Moreover, in the course of the execution of the Plan, monetary, exchange and fiscal instruments all operated on behalf of industrialization, giving it precedence over stabilization from two different standpoints. Firstly, they provided a pragmatic system of financing for the investment effort, thus largely filling

the gap represented by the non-existence of a capital market. Secondly, they sought to mitigate the more disturbing consequences of the inflationary process, with a view to retaining political support for the Plan. Providing, therefore, that their operation was important for attainment of the Plan objectives, the intensification of inflationary movements, was no deterrent. At the same time, through the adoption of measures which usually did no more than ward off trouble for the time being by holding in check the most visible effects of the disequilibria affecting the system, an attempt was made to reduce the political friction deriving from inflation. The orientation of short-term measures in these two opposing directions makes the approach to the problem of inflation in the second half of the fifties appear paradoxical. But if the priority given to long-term targets is borne in mind, together with the fact that the instruments under discussion were assigned the function of drawing in resources by the lines of least resistance, on the one hand, and, on the other, keeping the programme going from the political point of view, the simultaneous adoption of mutually contradictory measures is more understandable.

It cannot be over-emphasized that the effectiveness of this policy of conflicting temporizations was due to the rapid rate of economic growth attained. The dynamism of the Brazilian economy absorbed part of the tensions created, inasmuch as it enabled the level of investment to rise without an absolute loss of income on the part of other sectors of the economy. The real income of the urban worker did not decrease, and, in the final reckoning, no sector lost ground in absolute terms. Thanks to the marginal adjustment permitted by economic development, the compulsory transfer of the additional resources generated to the public and entrepreneurial sectors (one of the objectives of short-term policy) was made compatible with the prevention of marked fluctuations in wage-earners' levels of consumption (by means of efforts to control the prices of wage goods), through the application of apparently inconsistent measures.

This does not mean that the Government was fully aware of what it was achieving through monetary and tax measures and price and wage control instruments. It acted rather by trial and error, on notably empirical lines. It is only now, from a review of the situation, that the above two features of the instruments used are apparent. Likewise, it is only by studying the different phases of development that the reason for such measures being adopted haphazardly can be understood. The whole sequence of events appeared to indicate that the previous stages of development had made it necessary to continue to carry out structural reforms and had created the requisite conditions for implementation of a seemingly paradoxical policy.

Such was the position with regard to the price policy followed during the period covered by the Target Plan. Different means were used to prevent increases in the prices of primary subsistence commodities or inputs, which were both considered items of importance in determining the cost structure. Thus the previously unsuccessful efforts to stabilize subsistence prices through the application of direct controls continued throughout the Target Plan period. Such measures have been criticized as having a deterrent effect on primary production. Others were quite obviously harmless. Without going into

the source of such criticism it should be stressed that if direct price controls failed in the long run to benefit urban consumers at the expense of the rural producers or to arrest the rising price trend, consumers did derive some benefit from adjustments in the relative prices. The fact that agricultural prices remained unchanged, even for short periods, helped in some degree to cushion the effect of demands for wage increases, although this entailed the carry-over of cumulative pressures. This is a good example of the tendency to postpone the campaign against disequilibria by moderating some of their most glaring repercussions.

However, the criticism levelled at the price controls enforced should not obscure the fact that, before these practices were vitiated by the banding of producers and traders into more efficient organizations, they provided the public with the assurance that its interests were being considered and that it was not unprotected in the face of inflationary movements, which was the chief political reason for those measures. While the price stabilization policy met with little success as far as agricultural commodities are concerned, the Government was able to obtain better results in other directions. The most outstanding example of this was its action in regard to rentals; these were subject to legislation which protected rural tenants and kept rents at the level agreed upon in the pertinent lease. Another example, was the rates charged by the State transport and communications system. This sector granted cheap rates for political reasons, which meant that transport was a heavily subsidized item in the household budget of broad segments of the urban population.

Other transport items were subsidized indirectly by the State through the establishment of a favourable exchange rate for imports of petroleum and petroleum products. Moreover, the Government took steps to see that such items should continue to be extensively subsidized throughout the Target Plan period by refraining from adjusting the exchange rate for these imports. Its action in connexion with some commodities (e.g., wheat) was designed to mitigate the impact of rising prices on the household budget. As regards others, such as newsprint and pulp, it directly sought the political support of groups capable of influencing public opinion. Lastly, in certain cases like petroleum and petroleum products, it endeavoured to help the consumer indirectly by granting subsidies directly to producers. The Government maintained a subsidized exchange rate for these products and contrived to prevent frequent adjustments. Such practices were reflected in a policy of incentives to the consumption of those goods (e.g., wheat and petrol for private motor-cars), which in many instances was ill-advised under the conditions then prevailing in Brazil. Their effects, while varying and limited, were none the less favourable in that they did much to protect the real wage. To some extent they helped to keep certain propagation mechanisms within reasonable limits. In other aspects of price policy, the underlying aim of government action was evidently to obtain political support. The prices of some inputs, such as steel and electric energy, were kept relatively stable, which benefited the consumer industries even while creating more serious problems for the financing of enterprises in those sectors.

Another good example of government policy at that time was the treatment of exports. The public sector,

despite its manifest interest in expanding the economy's capacity to import, kept the bonuses paid to exporters of primary commodities at the same level for long periods, which did nothing to encourage those exports. Its action was designed to prevent an immediate rise in domestic prices and the imposition of restrictions on the short-term consumption of these commodities. Curiously enough, measures were taken which both raised export earnings and applied restrictive controls at the first sign of a domestic shortage.

While prices were being stabilized by means of direct controls, the public sector endeavoured, with little success, to intervene in the marketing and distribution of foodstuffs with a view to instituting a new system.

By and large, the purpose of the short-term price measures was to obtain political support for State action; however, because of other related factors (deficits in basic input industries, expansion of subsidized imports, etc.) they gave rise to difficulties in the implementation of the long-term policy itself, by aggravating the internal disequilibria in the system. However, they paved the way for the adoption of other practices which were more important, as far as meeting the objectives was concerned. This is particularly relevant in regard to the salary and wage control policy affecting government officials and industrial workers. Throughout the duration of the Target Plan it was sought to keep nominal wages constant by opposing adjustments. This made for the accumulation of forced savings deriving from the wage-earning sectors. It may safely be assumed, however, that without the aid of that irrational and paradoxical price policy the public sector would have found it hard to maintain wages at the same level for such long periods, thus forestalling the rising trend in costs which might have obstructed the programmes in force during the period covered by the Plan. Clearly, the main reason for the success of this policy was the existence of a flexible supply of manpower unaccompanied by any marked degree of trade union organization. Nevertheless, such a price policy partly explains the wage behaviour pattern, which undoubtedly played an important part in the attainment of high rates of investment and in the relatively successful efforts to arrest inflation.

Another area in which the economic policy of the period was manifestly bound up with the removal of obstacles to the execution of the long-term plan—thus, by its stop-gap action, creating more serious problems for subsequent periods—lay in exchange operations whereby short-term credit lines were used to finance current imports or international financial payments. When the rate of exchange sold at auction in the general category registered a rising trend, the public sector preferred to negotiate “swaps” rather than to withdraw foreign exchange from the financial market (in which the exchange rate was lower than in the general market). Such an operation made it possible to stabilize the exchange rate in the two markets within a short span and to obtain additional resources in national currency (the difference between the sales rate of exchange in the general category and the rate at which the “swap” was negotiated). This gave rise, however, to huge short-term liabilities for which there was no foreign exchange available. In addition, the public sector ran the risk of having to purchase foreign exchange at a higher rate in order to repay “swaps”. In

any case, this practice served to shift the existing pressure on the exchange rate, and to keep the over-valued cruzeiro constant.

A review of budget policy and means of financing Treasury deficits brings to light other examples of the temporizing nature of economic policy. Its application to the different items of public expenditure confirms the behaviour patterns discerned in other fields. For example, the real wages of civil servants declined during the period as a result of the limitations imposed on their wage claims. During the years of periodical adjustments, the uncontrolled pressures exerted by wages had a decisive effect on the level of public expenditure, accentuating the budgetary disequilibria. Notwithstanding the fact that such a wage policy was partly conducive to a deterioration of the traditional public services by reducing the quantity and quality of the services available, the Government obtained real savings therefrom. In contrast to the salary and wage policy applied to civil servants, transfers increased disproportionately in the structure of expenditure. Through a combination of measures designed to maintain low transport and communications rates for political reasons and to meet the pressures exerted on those two sectors by the wage-earning groups which, besides being in a strategic position, have had considerable experience in the organization of trade unions, the Government assumed heavy financial commitments in respect of these sectors, both in the administration of public enterprises and in giving support to privately-owned maritime and air transport companies. Lastly, the amount of capital expenditure faithfully reflects the composition of the objectives proposed in the Target Plan, since the funds appropriated remained constant. It is important to emphasize that the traditional investments (made outside the Plan), which had served to satisfy the political aims of other non-dynamic sectors and areas, were maintained.

As a result of this budget policy, the share of government expenditure in the national product increased. In the absence of an adequate system of financing, large deficits appeared and became one of the principal mechanisms for the expansion of the means of payment in the second half of the decade.

Under the circumstances, the deficits arising during the period concerned cannot be attributed to the federal tax structure. This consisted of taxes on dynamic sources of the economy (personal income and the earnings of enterprises; consumption of industrial products, lubricants, fuels and imported commodities and financial movements) and tended to increase fiscal revenue disproportionately in a developing economy, since the tax rates were *ad valorem* (this did not happen in the case of the smaller political unit—the *município*—a fact which, among others, led in 1961 to a constitutional change in the system of tax distribution between the three political-administrative levels, with a view to strengthening the fiscal position of the municipality). To sum up, the federal tax structure was flexible in face of the rising trend in prices and the change in the composition of the product. Economic policy with regard to tax revenue during the decade was positive within the normal framework of Brazil's fiscal system, and operated efficiently. In the course of the period the remaining specific bases became *ad valorem* or were frequently adjusted. The time limits for tax collection were advanced, and the tax bases and aliquots were in some

degree amplified. Consequently, the tax burden increased throughout the fifties. However, while in this respect economic policy was conducted on such lines as to establish a satisfactory system of government financing, it failed in relation to the prices of public services, particularly in the case of public transport rates. The patterns outlined above rendered this item of current revenue inflexible, thereby partly generating the deficits in the sector concerned, which reached approximately 50 per cent of the federal deficit.

But in spite of the satisfactory tax earnings, the expansion of government expenditure would still have given rise to deficits in the budget even if public transport rates had been fixed on a more realistic basis. A review of the means of financing such imbalances brings to light in various ways the policy of following the line of least resistance in the execution of the Target Plan.

The system for financing the government deficit, save for a small proportion covered by the deposit of Treasury Bills, consisted in an increase in the loans granted to the Government by the Bank of Brazil. Nevertheless, the increase in the public sector's debt to the banking system cannot be assumed to be a faithful reflection of the primary factor of expansion of the means of payment as represented by the government deficits. Brazil's public sector had an additional source of tax revenue in the exchange system control based on multiple rates. The difference between import and export exchange rates replaced the export tax no longer in existence. The difference was particularly substantial in the case of commodities registering the highest productivity levels (coffee and cacao). The resources thus obtained were used primarily for the payment of subsidies (wheat, paper, fertilizers, etc.), and served to guarantee the system of purchasing coffee surpluses in order to protect the world price of this commodity. The incidence of the coffee retention policy can be assessed from the figures in table 27.

**Table 27**

BRAZIL: COST OF COFFEE RETENTION PROGRAMME, 1954-62

Year	Value of increase in stocks (thousands of millions of cruzeiros)	As a percentage of the gross domestic product
1954	3.4	0.61
1955	5.9	0.85
1956	1.2	0.14
1957	11.4	1.07
1958	26.9	2.05
1959	49.6	2.77
1960	49.0	2.05
1961	31.9	0.91
1962	110.3	—

SOURCE: SUMOC (approximate figures).

The liquid surplus remaining after these transactions actually constituted an additional source of funds for financing the Treasury deficit. Consequently, the balance of the exchange agios played the part of an extra-budgetary tax in mitigating the impact of the Treasury deficit on the means of payment. The amount of these balances was dependent upon three basic factors—the

average surcharge paid by importers (average agio); the bonus payable to exporters; and the exportable coffee output. Exchange policy exercised strict control in respect of the first two factors. In an effort to prevent the external devaluation of the cruzeiro from accelerating the upward movement of domestic prices, the exchange policy contrived to keep the exchange rate as stable as possible. The Government sought to arrest the rising trend by expanding the supply of foreign exchange, to which end it committed the principal short-term credit sources. It also took steps to stabilize the exchange rate applied to subsidized imports. Its action was reflected in the receipts of the agio fund, besides directly affecting tariff revenue (the official dollar rate was fixed in relation to the exchange surcharges). The Government tried to keep the bonuses paid to coffee exporters at the same level for as long as possible. However, coffee growers and exporters, operating as an organized pressure group, not only succeeded in obtaining frequent adjustments in these bonuses, but also enjoyed the assurance that their total coffee production would be purchased. This policy, besides doing nothing to discourage the expansion of production on traditional coffee-growing land, since the percentage payable was calculated to maintain their rate of return, caused coffee-growing on new agricultural land to become a primary activity with a high rate of return, thus giving rise to an expansionist cycle in the domestic supply of coffee. Although this policy, which led to the irrational use of factors and, later, to more serious financial problems, is open to criticism, it must not be forgotten that it provided a basis for the channelling of resources generated in the export sector into industrial activities. Nevertheless, the adjustment of bonuses and the fluctuations in coffee production introduced yet another distorting factor in public sector financing, which in some cases accentuated the budgetary disequilibria (as occurred in 1959).

The vulnerable aspect of the public sector was in some degree offset by the possibility opened up to the Government (owing to the high productivity of coffee growing in new agricultural areas) of absorbing a proportion of the income deriving from that sector in order to stimulate the import substitution process.

Thus, the difference between the increment in the Federal debt to the banking system and the liquid agio balance represented the real disequilibrium in the public sector accounts. Absorbed by the system in the form of primary expansion of the means of payment, it constituted the proportion of indirect taxation applied through the inflationary movement to sectors ill-equipped to protect their real income levels.

A number of other systems of financing could be mentioned as less likely to affect price levels than the method of covering government disequilibria adopted by Brazil; but such systems would probably have been politically impracticable, as borne out by the failure of the well-known stabilization policy introduced at the end of 1958.

A first possible approach might consist in increasing the tax burden. A study of the questions shows, however, that this avenue has been explored extensively and tax changes had, in fact, increased the tax burden. The results obtained no doubt represented the maximum tax pressure which the system was prepared to sustain.

To increase the tax burden still further would entail a drastic tax reform (consisting in tapping the reserves of enterprises, heavily taxing the upper income brackets and modifying the structure of personal expenditure). This would mean the transfer of savings from enterprises to the State and the imposition of restrictions on specific patterns of consumption. It would be idle to stress the impractical nature of these measures in view of the forces at play in the system.

Another method might be for the State to tap a proportion of the private sector's savings through long and medium-term credit operations. Such a system might have been feasible under different conditions, that is, if a satisfactory rate of interest and protection against devaluation could have been guaranteed. In fact, it might perhaps have been practicable if the economy had not been going through a phase of expansion with growing investment opportunities, in the face of which the resources of enterprises were obviously insufficient.

Lastly, the distribution of bank credit might have been so modified that the increase in loans to the public sector was not accompanied by a parallel increment in credit to enterprises. This alternative measure was tried out under Brazil's monetary policy, but promptly discarded because of the very course followed by the Target Plan, the longer and therefore more capital-intensive production processes, and the political basis on which the Plan was founded. Moreover, the Government adopted a cautious attitude to the secondary expansion of credit to the private sector to finance its working capital. Given the interests at stake, however, the public sector could not have acted otherwise. Not to labour the point, suffice it to note that the vulnerability and prompt reaction of Brazil's private sector to any attempt to apply a credit restriction policy was accentuated by the almost complete dependence of enterprises on bank credit for their working capital. Since the country was going through a stage of economic progress, the funds owned by enterprises were used to purchase fixed assets; thus banks played a more important role in current transactions and the private sector became acutely sensitive to any reduction in credit.

It is plain, therefore, that the expansionist system in respect of the means of payment, which was based on the government deficit and incurred high social costs since it mainly affected the wage-earning sectors, was the result of a variety of interests, which to a certain extent combined to maintain the inflationary movement. This was not so because the conscious aim of the parties concerned was to benefit from inflation, but because their position within the economic process led them to formulate economic policy along the line of least resistance, which tended to strengthen the inflationary movement. In any case, there is no doubt that even if this result was not deliberately pursued it admirably suited the interests of the industrial sector, which predominated in the political sphere.

To sum up, the foregoing considerations do not mean that inflation was pursued directly as an instrument, but that it was engendered by the structure and conflict of interests in the industrial sector in the conduct of economic policy. By guaranteeing credit for that sector, maintaining wage levels, and subsidizing and stimulating imports of capital goods, the system offered the private sector a satisfactory means of savings and investment

thus enabling it to take advantage of the industrial opportunities opened up by the development of the import substitution process, which in some degree hinged on the rising trend in prices. The inflation resulting from the economic policy described above enabled both the public and entrepreneurial sectors to tap a proportion of the increment in the product through the repressive redistribution of income.

It has been shown that the rising price trend was due to a combination of forces aimed at supplementing and completing Brazil's industrial diversification process. At the economic policy level, it was the result of taking the line of least resistance by introducing the most feasible system of financing in the face of the objective conditions existing in the country, which marshalled energies in the direction established by the Target Plan. Such practices were compatible with economic development during that period, in that the prolonged inflationary process failed to bring in its train the adverse consequences predicted for those years,<sup>35</sup> and the economy registered a high rate of growth for the product and reached an advanced stage of industrial integration.

In theory, of course, the same results could have been obtained without so aggravating the disequilibria through a more rational and better adapted system and a less casual attitude to an annual rate of inflation of over 20 per cent. Moreover, it should not be forgotten that, largely as a result of the practices adopted at the time, graver problems were created for the ensuing phase and are now besetting the economy, as will be seen below. Still, in so far as development is not a laboratory model but a historical process in a community, marked by its characteristic features, it is open to question whether there is anything to be gained from assessing the value or moral worth of a policy which has shown itself to be so effective, at least in relation to the targets enunciated at that stage.

#### 4. BALANCE SHEET FOR THE PERIOD

The conclusion of the Target Plan in some degree coincided with the end of the long industrial diversification process of Brazil's economy within the framework of the import substitution development model. The industrialization induced by the external bottleneck, which was a typical feature of the model, started in the 1929 Depression and reached its peak in the second half of the fifties. During this period, the former economic growth rates were surpassed under the Target Plan. In 1957-61 the gross domestic product increased by 7.9 per cent annually, against 5.2 per cent annually in the preceding five-year period. This was the result of the concentrated investment effort that went into the institution of a vertically-integrated industrial system in which capital goods and basic inputs sectors carried considerable weight. Although this structure still presented some gaps, the main objective was realized. At the beginning of the sixties Brazilian industry already displayed the features of a mature economy.

As regards the subsequent stage of economic development, the most significant factor was the rapid import

<sup>35</sup> Werner Baer, "Inflação e eficiência econômica no Brasil", published in the *Revista Brasileira de Ciências Sociais*, vol. III, No. 1. This article adduces convincing proof that Brazil's state of inflation during that period did not have the adverse results classically imputed to it.

substitution process in respect of capital goods. The import content in the domestic supply of these goods dropped from 54 per cent in 1949 to 33 per cent in 1958. In view of the flexible nature of the metal-transforming industry established, and the existence of a certain degree of under-utilized capacity in the sector, it would seem that once certain problems (engineering deficiencies, lack of internal financing for sales, etc.) were solved, small supplementary investments would be sufficient to ensure that substitution in respect of capital goods, already potentially accomplished, would far exceed that indicated by the coefficient mentioned above. A recent ECLA study<sup>36</sup> shows that 80 per cent of the equipment required for the expansion of the basic sectors could be produced locally by the existing industrial inventory. Parallel with industrialization, the period witnessed the supremacy of the urban sector and confirmation of its sway over the mechanisms of policy decisions. These two factors combined to enable the economy, for the first time, to lay down guidelines for its future development quite independently of its relations with the rest of the world. Some of the prerequisites for a dynamic development process could already be discerned.

However, the events described above do not mean that industrialization through import substitution has conduced to the shaping of a developed economy. Economic development, in by-passing the primary sector, the less developed regions and the major segment of the population, accentuated the existing sectoral, regional and social disparities. But at the same time it created the requisite conditions for levelling out these disparities by setting up an integrated industrial structure.<sup>37</sup>

The intensification of the structural disequilibria in the final stage of Brazil's import substitution process may be summed up as follows. Although the supply of agricultural commodities increased by 4.6 per cent annually between 1947 and 1961, i.e., slightly faster than the population growth (3.1 per cent), the average productivity of the land remained practically the same, the increment in supply deriving mainly from the new lands cultivated. In the last decade, the population "employed" in the primary sector increased by over 41 per cent, which caused the product generated per agricultural worker to remain at virtually the same level. At 1949 prices, the *per capita* product of the primary sector went up by 10 per cent between 1950 and 1960. While it is true that a study of the over-all data available fails to reveal the progress achieved in some agricultural areas, the figures given above clearly illustrate the wide disparity between the primary and urban sectors, which is particularly dramatic as over half Brazil's population belongs to the stagnant primary sector.

The regional disparities can be explained by reference to history, i.e., the existence of a number of primary-exporter economies in Brazil and the fact that only one

of them—the Centro-sul area—has generated an import substitution process. The relative autonomy of this centre's development was responsible for the slow start of a horizontal integration process. It is only in the last few years that an expansionist movement has taken shape in the most developed area, concurrently with the dynamic growth of the formerly stagnant sectors. Without going into the reasons for this situation, the following figures illustrate the extent of the disparities existing between one area and another. In 1959 the *per capita* income in the richest State of the Nordeste (where one-third of Brazil's population lives) was 30 per cent of the average income of São Paulo, a centre of dynamic growth. The same year, while the *per capita* income of Guanabara, the richest state in the country, was over 76 per cent of that of São Paulo, the level registered in Piauí, the poorest state, was only 16.2 per cent.

As regards the social disparities, few data are available to determine them accurately. It is likely, however, that they were aggravated in the course of the industrial process.<sup>38</sup> It is not proposed to deal here with the obvious developments emerging from the combination of the two disparities mentioned above. The fact it is wished to bring out is that, in spite of the swift pace of industrial expansion, the creation of industrial employment opportunities in the fifties lagged behind population growth; thus, industrial employment increased by 29 per cent between 1950 and 1960, as against a population growth rate of 37.2 per cent. This situation, allied to the population shift from the country to the town, led to the formation of a marginal sector comprising a large proportion of Brazil's urban population. Its size has yet to be determined, but its existence is manifest in the growth of the poverty stricken population of the shanty towns. To a certain extent, this plentiful source of unskilled manpower had an adverse effect on wage negotiations in this sector. Moreover, the type of industrialization achieved tended to favour skilled labour disproportionately in terms of employment opportunities and salary increases. Given the fact that, in 1950, barely 60 per cent of the urban population was apparently integrated in the high-productivity system, that according to the data given above this proportion probably shrank during the past decade, and that 55 per cent of Brazil's rural inhabitants registered far lower levels of living than the urban population, the cleavage in the structure of Brazilian society is obvious. Over and above the social disparities, it should be borne in mind that the public sector's investment and social expenditure policy does nothing to mitigate them. The populations by-passed by the economic process have hitherto failed—owing to their inability to take part in the economic life of the nation and, consequently, to their poor trade union organization—to derive any benefit from the economy's increments in productivity. Often the economic conditions of migrants from the country deteriorate because of the inevitable inertia prevailing in areas of urban concentration.

Although public recognition of the existing disparities and the concern aroused thereby has been a burning political issue in Brazil in the last few years, it can hardly be said to have constituted one of the keynotes of the previous evolution of the economy.

<sup>38</sup> The evolution of the real wage series indicates an improvement, in absolute terms, in the standard of living of the population integrated in the high-productivity system.

<sup>36</sup> *The manufacture of industrial machinery in Latin America. I. Basic equipment in Brazil*, op. cit.

<sup>37</sup> It should be borne in mind that the creation of such conditions does not mean that a likely solution is within reach. Moreover, there is no indication that the future course of Brazil's development will be in the direction of removing the disparities. In so far as a prediction is possible, everything seems to point to the intensification of the sectoral and social disparities in the near future.

In addition to the foregoing problem, two other facts can be singled out from the Plan period that significantly foreshadow the problems of economic policy in the last three years of the period under review.

In the first place, mention should be made of what might be termed the "exhaustion" of the possibilities of financing the capital formation process by inflationary means. It has already been shown that during the execution of the Target Plan, as far as inflation was concerned, an attempt was made to mitigate its more immediate effects, while at the same time the nucleus of decisions that sustained the inflationary process itself remained in force. The success of the Plan made this policy possible inasmuch as the rapid rate of economic growth eased the tensions arising from the conflict of decisions. It did not, however, get rid of them altogether. It only put off the date of their eruption in the form of price exponential. An optimist might suppose that the greater economic flexibility and the increase in internal supply which would be the ultimate outcome of the Plan would establish conditions *a posteriori* for the efficient control of inflationary movements. But he would be overlooking an elementary fact inherent in the tactics pursued in the second half of the fifties. After a prolonged period, there is a risk that the inflationary process will become dissociated from the factors that gave rise to it and, in this sense, autonomous. Moreover, reliance on the possibility of checking the rising trend of prices from above, through an increment in supply, would imply, as a corollary, the continuity of the investment process, and that would mean a future resurgence of the financing problem as had to be tackled during the period of the Plan. Consequently, such a hypothesis would only be viable if the structural changes in the economy had placed at the disposal of the public sector (including State enterprises) an alternative mechanism for the tapping of voluntary savings.

In these circumstances, an intensification of the inflationary process becomes a natural derivative of the

Target Plan, in default of a substantial enlargement of the capital market, whether for public or for private securities. The fact that other factors were subsequently combined with this trend, including disturbances of a political and social nature, which tended to step up inflation, affords no grounds for refuting the assertion that the Plan was the mainspring of the marked upward trend of prices in the last few years. It did in fact exhaust the possibilities of the former pattern of inflationary financing before an alternative mechanism had made its appearance within the economy.

Secondly, a glance at the private sector will show that the Plan system had furnished it with a mechanism for self-financing through the tapping of enforced savings, which was based on the lack of control over widespread price increases (with the exceptions quoted above) and on the subsequent monetary support deriving from the combination of substantial deficits with prompt attention to the private sector's applications for credit. But this mechanism, rendered viable by the rapidity of development, likewise tended to wear out its own possibilities in the course of its operation. As wage adjustments—with the gradual creation of weapons of defence—grew bigger and more frequent, it was left for the private sector to intensify the inflationary process by resorting to anticipatory price adjustments. But this, as will be readily understood, became increasingly difficult as the economy was swept into spiralling inflation.

Consequently, at the beginning of the ensuing period, the national economy was faced with the fact that all these latent tensions were close to breaking-point. Moreover, the circumstances were no longer the same as in the previous decade; the maladjustments emerged in a more diversified economy, with more capital-intensive production processes and with major sectors that were highly sensitive to fluctuations in the rate of growth, and therefore vulnerable to an internally-generated conjunctural depression.

## V. THE TARGET PLAN INSTRUMENTS

The purpose of this section is to describe the group of instruments used for the Target Plan; to indicate the factors that determined the choice of certain somewhat unaccustomed expedients; and to show how, in the course of the execution of the Plan, a system was established for the co-ordination of these instruments in relation to the various objectives pursued, which, although inadequately formalized, in practice worked quite well.

For the purposes of implementing the Plan, the instruments inherited from previous periods were brought into service, their mode of operation, in some cases, being adjusted to the Plan's requirements; and, in addition, new ones were forged to deal with specific problems, in conformity with a markedly pragmatic criterion. The new instruments seem to have been selected on the principle of choosing those which would represent, politically speaking, the lines of least resistance. This consideration over-rode all others relating to their economic merits. The practices adopted under the Target Plan are indicative of almost complete indifference to the problem of instruments and institutions for its own

sake—except in the cases of the 1957 customs reform and the Federal tax on consumption, to be discussed below—and in fact resulted in the exhaustion of the instrumental possibilities afforded by the legal framework inherited from the preceding decade. They may be said to have constituted an investigation of how far the juridical potentialities of the old economic order could be exploited for the establishment of a new system. As will later be seen, the realization that these potentialities could be turned to no further account was to be one of the mainsprings of the discussion of economic policy in more recent years.

### 1. THE SITUATION IN THE MID-FIFTIES

The description of the Target Plan instruments may usefully be preceded by a brief review of the situation in this respect at the time of the Plan's adoption. Such an evaluation will make it much easier to understand the *raison d'être* of the solutions devised in the second half of the decade.

Although in many instances the existing tax schedules yielded little revenue, the system was broad enough to cover almost all objects of taxation. For example, levies on foreign trade comprised a low specific import duty (1937 schedule), and a 5-per-cent *ad valorem* tax on exports collected by the state governments. Personal income tax was schedular in character (differentiating between earned income and income from property) and progressive in accordance with the level of individual income. Enterprises paid *ad valorem* taxes on their total profits. Taxes were likewise payable to the Federal Government on the incorporation of financial reserves into the capital of enterprises and the revaluation of assets. Two taxes were levied on expenditure: one whose incidence was universal and cumulative (falling on transactions at all levels) on the basis of a fixed proportion, and the other differentiated according to the final product concerned. The former, on sales and consignments, was the tax that yielded most revenue in the Brazilian system, and was a state levy. The second—an excise tax on consumption—was federal. Operations relating to petroleum and petroleum products, production and consumption of electric power and mining activities enjoyed special tax treatment, under the Federal Government. Financial and banking transactions and juridical proceedings were subject to Federal Government taxes which varied in their incidence, form and régime, and were aggregated in the Brazilian tax system under the head of stamp duties. These were the principal taxes, but there were others on landed property (state), urban real estate (municipal), property transactions *inter vivos* (state) and transfers of property *mortis causa* (state), besides innumerable minor taxes mainly at the municipal level.

The social security system was already firmly established, and was based on equal contributions made by the employer and the employee. Its component institutions collected substantial financial resources.

All the traditional powers of intervention in the monetary flows (determination of the rates of interest and of rediscounting, of the cash-holdings/deposits ratio, and of credit operations, etc.) were distributed among SUMOC, the Ministry of Finance, and the government bank (Banco do Brasil). The lack of a central bank on the classic pattern may be partly explained by the importance of the official bank, which, besides being the Government's financing agency, directly controls over 40 per cent of total private banking operations, acting as the biggest commercial bank in Brazil.

Public long-term credit instruments were almost entirely non-existent. In face of legal restrictions that prevented the authorities from issuing securities adjustable to the rise in prices, Brazil's long-standing inflationary process had destroyed this traditional source of government funds. The list could be lengthened if reference were made to the network of savings banks (Caixas Econômicas)—mortgage credit institutions which collected small individual savings—the system for the control of insurance and reinsurance operations, the body of legal provisions relating to the treatment of external savings, and so forth. All this reveals the extent of the conventional powers invested in the Brazilian State.

Reference to foreign exchange measures has been deliberately reserved as the last item in this brief enumera-

tion. The instruments noted above seem to have passively fulfilled the functions traditionally assigned to them. No trace was so far visible of any interest in using them for the declared purpose of implementing development policy. Only exchange rates tactics, after the 1953 reform, had broken through the prevailing torpor in this respect, inasmuch as they had undergone an adjustment which permitted the derivation of fiscal resources from external trade flows and the application of a selective import policy and differential incentives to industrial development. For this very reason, however, the structure of exchange rates had by that time departed considerably from its orthodox pattern.

At the date in question, Brazil's exchange system was organized in such a way as to enable the Government, in default of efficient taxation on imports and exports, to appropriate a share of the income generated in relations with the rest of the world. At the same time, it operated selectively, making it possible for imports deemed essential to be subsidized. For reasons which there is no need to enumerate, it became the most powerful of the instruments of economic policy. Since its main features and objectives have already been analysed in the context of exchange policy, the point will not be further dwelt on here.

Some characteristic features of the machinery available for the purposes of the Target Plan may be noted. First and foremost comes its lack of co-ordination. The State failed to realize the potential radius of action of the instruments at its disposal, which, if they were envisaged as a whole, often exceeded the mere sum total of their separate powers. Each instrument was handled within its own specific field of action, according to a particular hypothesis—usually conservative and tacit—which was sometimes incompatible with the underlying assumptions adopted in other sectors of public activity; and its recognized range was limited by a definition restricted to its immediate impact. Consequently, the machinery available was kept in separate compartments instead of being properly fitted together. Up to a point, the Target Plan was to explore the inherent possibilities of the existing instruments, simply by bringing their powers to light and roughly co-ordinating them.

A long list of factors is responsible for the lack of even partial co-ordination of the instruments of economic policy in the phases preceding the Target Plan.

The root cause is to be found in a situation peculiar to an under-developed country of continental dimensions. Since its internal production systems were at different stages of their evolution, multi-directional aims sprang up in response to aspirations that were at variance with one another. The lack of regional and sectoral integration, concomitant with a polycentric system for the formulation and execution of policy, meant that the group of instruments used was divided up likewise.

The most specific aspect of this polycentric character of the Brazilian economy was that it even permitted the distribution of tax resources among the three levels of politico-administrative organization (Federal Government, states and municípios). The smaller units handled tax revenue equivalent in the aggregate to that collected by the Federal Government, and significant powers were delegated to them by the Constitution. It is important to note that the states (the middle step in the scale) are liberally endowed with resources, a fact which is in

contrast with the limited role they play in other Latin American federal systems, and reflects the existence of separate economies rather than of subordinate entities as in the familiar types of federation.

Another factor which did much to prevent co-ordination consisted in what, by a stretch of language, might be termed the "simplicity" of the problems that economic policy was called upon to tackle. An economy that reflects external conditions and whose internal organization is not very complex does in fact tend to formulate its economic policy solely in response to external challenges. These confront it with alternatives which, while often entailing an indubitably painful choice, are almost always clear-cut and few in number, so that complex machinery is not required. It has been shown how the first stage of industrial development was negotiated without the application of any deliberately concerted policy, merely through the manipulation of exchange rates. If this "simplicity" is contrasted with the instruments and adjustments needed to safeguard the rates of employment and of development in an economy which possesses a diversified capital goods industry, the point it is desired to make will be clear.

Certain highly favourable circumstances, however, were encountered by the formulators of the Plan. Firstly, the State's assumption of the role of "innovator-entrepreneur" was already an accepted fact. Ever since the Second World War, with the introduction of blast furnace steel-making, with the expropriation of the former rail and maritime transport enterprises—in a process of state absorption of the losses suffered by the transport sector, where the level of productivity was low and that of trade union organization high—and then with the constitution of the Companhia Hidrelétrica do São Francisco in 1948 and that of PETROBRAS in 1954, etc., Brazil's public sector had been fulfilling important entrepreneurial functions. Thus the idea had already been incorporated into national practice, and the Plan was spared the ideological conflicts that inevitably mill around such an expansion of state activities, and that might have placed political obstacles in its way.

The second favourable factor consisted in the previous establishment of an initial set of instruments of development policy already referred to, which were handed on to the Plan (BNDE created in 1952; exchange incentives introduced in 1953; the formulation of a policy to attract external savings; and so forth). Here again, the fact that these instruments already existed reduced the need for innovations which might have aroused debate and opposition.

## 2. KEY INSTRUMENTS FOR THE ESTABLISHMENT AND EXECUTION OF THE TARGET PLAN

It is useful to bear the foregoing observations in mind when the instruments adopted as means of executing the Target Plan are passed in review. As already pointed out, the lines of least political resistance were followed in this respect, the theoretical propriety and exact precision of the instrument being sacrificed to its short-term efficacy. In this period, with few exceptions, no interest was shown in overhauling the existing machinery and redefining the role of the State. The old apparatus was brought into intensive service, with partial adjustments only, as in the past, regardless of any general definition of the task to be undertaken. However, owing to the

increasing complexity of the objectives implicit in the more advanced stage that industrialization had reached, some instruments were improved to a certain extent (foreign exchange budgets, funds for financing purposes, etc.) and an incipient attempt was made to integrate the existing machinery (executive groups for the co-ordination of incentives to private industrial enterprise). During the period an embryonic central planning agency (the Development Council—Conselho de Desenvolvimento) was likewise instituted, though with little success. Such advances were of a markedly pragmatic and empirical character. Progress in this field was confined to what was strictly necessary for the direct attainment of the objectives set up. No independent effort was made to establish more fully integrated machinery; on the contrary, the unco-ordinated and makeshift character of the instruments of economic policy persisted and was, up to a point, aggravated. But because they had been fashioned in the course of the industrialization process, the system of governmental action resulting from these piecemeal and marginal adjuncts to the old pattern proved exceedingly efficacious. In any case, it should be borne in mind that the general characteristics indicated apply to the machinery considered as a whole; in respect of the sub-group of instruments used for implementing the Target Plan, a measure of coherence was indubitably achieved.

Briefly, the Target Plan machinery comprised the following key elements. As regards the objectives for whose attainment the public sector was responsible, the necessary instruments were secured through the combination of flexible administrative patterns (state and semi-public enterprises) with the earmarking of funds for financing purposes that were not subject to budget cuts. In the case of private-sector targets, the system was based on a set of powerful incentives which were granted through co-ordinating agencies (executive groups). The work of co-ordinating programmes and ensuring their complementarity was centralized on the one hand in BNDE, which issued long-term loans and guaranteed foreign credits, and on the other in SUMOC, through which preferential import treatment and external resources were obtainable.

These various elements may now be individually examined.

### (a) *Instruments for attaining public sector targets*

The construction of the upper strata of an integrated industrial pyramid entailed the public sector's assumption of direct responsibility for a number of sectors, whether on account of their low rates of return, or because of the substantial resources required and the long time it would take for investment to mature. Thus, as Brazil's industrialization process made headway, the traditional responsibilities of the public sector were augmented by the tasks of increasing the power supply, managing the transport sector and undertaking the domestic manufacture of certain basic inputs, notably products of the iron and steel industry. Owing to the very nature of these activities, their development on lines compatible with requirements necessitated the projection of future demand, strict programming of investment and a guarantee of continuity in respect of financing. The old administrative structure and the traditional budgetary methods proved totally unfitted to fulfil these requisites.

In the first place, the establishment of such activities, besides calling for exactitude in project preparation and research, requires plenty of administrative flexibility for the purposes of recruiting technical personnel, collecting resources, obtaining external financing, and so forth. Brazil's old administrative system—a legacy of the liberal State—rigid, awkward and stuffed with prejudices, lacked the necessary elasticity to meet the demand for changing forms of action. Thus, either it had to be brought up to date, or a new operational system of administrative units had to be established alongside it. The exact significance of the decentralized<sup>39</sup> administrations in Brazil is difficult to evaluate. A survey carried out in April 1961 by the Technical Advisory Council (Assessoria Técnica) of the Office of the President of the Republic estimated the central government's budget expenditure for the year at 271,000 million cruzeiros, as against 610,000 million in the case of the decentralized administrations. The survey covered 65 decentralized agencies at the federal level. Another quantitative indication of the importance of the administrative agencies of a more flexible type may be found in the *Revista Brasileira de Economia* (March 1962). Research carried out showed that in 1959 twenty-one public enterprises operating in the fields of industry, transport and communications, and financing accounted for 9.9 per cent of the total income of those sectors of the national economy, and invested amounts approximately equivalent to the sum of the remaining federal investments. An important point is that 92 per cent of the gross savings of the public sector was generated within the enterprises concerned, a fact which denotes their high rate of capital formation.

In connexion with the transport and energy network, as well as with certain industrial activities, powerful semi-public bodies grew up in Brazil in the course of the decade. Highway programmes are basically in the hands of the autonomous Departamento Nacional de Estradas de Rodagem (DNER). In the railway sector, a holding enterprise—Rêde Ferroviária Federal S.A. (RFERSA)—was set up in 1958; it fused more than 18 independent companies, and was recently converted into a semi-public agency, under the title of Departamento Nacional de Estradas de Ferro (DNEF), to manage the sector's rehabilitated financing fund. Merchant shipping is under the control of the Comissão de Marinha Mercante. In this sector, which is almost entirely in the hands of the public sector, the Federal Government possesses various enterprises, the most important being Lloyd's of Brazil (Loide Brasileiro) and a national coastal shipping company (Companhia Nacional de Navegação Costeira). In the electric energy sector, which is under the jurisdiction of another semi-public institution, the Conselho Nacional de Aguas e Energia Elétrica (CNAEE), innumerable enterprises have been established, and, in 1962, the holding company, ELETROBRAS, was set up. Mention must also be made of the national petroleum monopoly, PETROBRAS, instituted in 1954; the government-owned steel mills; the companies exporting iron ore and manufacturing soda ash (*barilla*); the national motor-vehicle industry (Fábrica Nacional de Motores); and the curious NOVACAP, the enterprise that built Brasília.

<sup>39</sup> In the broad sense of not being subject to the body of administrative and accounting rules and regulations in force for the traditional government services.

On the other hand, in the absence of a central planning system for public investment, the methods of drawing up the budget used in Brazil were not calculated to ensure the continuity of activities which by their very nature entailed substantial long-term investment. The budget, subject as it was to the political pressures of the day, would probably have been the cause of undesirable interruptions and fluctuations in infrastructure investment programmes.

Brazil's system of drawing up the budget reflects the polycentric formulation of economic policy objectives referred to above, and the parcelling-out of the machinery used. The central organ responsible for preparing the budget, the Departamento Administrativo do Serviço Público (DASP), is not equipped to formulate financial policy proposals or to organize the various investment programmes on a basis of mutual compatibility. All it really does is to collect and file applications for financing in accordance with formal accounting procedures. The resulting body of requests is not subject to any preliminary financial control or over-all evaluation of priorities. When all the applications have been formally assembled at the level of the Executive, they are transmitted to the Legislature, and at that stage are further augmented by the inclusion—still without any prior definition of financial policy or of general guiding principles—of many other appropriations which have their origin in isolated groups of interests. As a result of these accretions, the budget is difficult, if not impossible, to put into execution. The Ministry of Finance then draws up a plan of the cuts to be made in the allocations (the so-called "economy plans"), and when these deductions have been effected, the real national budget is arrived at. Alongside it, however, legal provisions exist under which certain outlays can be made without the corresponding approval of budget allocations by Congress. What is more, as the budget for any particular year was drawn up nearly two years previously, the rapidity of the inflationary process makes its figures so unrealistic that recourse to special credits becomes a routine necessity. By virtue of the powers referred to, it is the Ministry of Finance that in actual fact is responsible for the budget, which partly accounts for its position of eminence in Brazil's administrative system, since it is the body that in practice defines over-all budgetary policy. But it does so at the end of the process of preparing the budget, instead of following the more rational course of laying down guidelines at the outset. What is more, generally speaking, it formulates, the plans for the cuts in the light of strictly financial considerations, with disproportionately adverse consequences for those sectors which at the moment possess the least political bargaining power. Naturally, such a routine follows no permanent guiding principles, and an undesirable financial vulnerability is thus imparted to long-term programmes.

In face of this twofold challenge, financing funds earmarked for special purposes<sup>40</sup> and autonomous public

<sup>40</sup> At the present time, the mainstay of investment in the transport and energy sectors is constituted by the following system of specifically allocated funds: *Fundo Rodoviário Nacional*. In existence since 1945, and reorganized in 1956, this Fund supports the road-building and repair programme. In 1956 it absorbed 75 per cent of the revenue accruing from the substantial extra-budgetary taxation on fuels and lubricants of mining origin. It now receives 90 per cent of this revenue. The resources in question are distributed among the Federal Government (40 per cent) and the states and municípios (60 per cent), but can only be applied in

bodies or State enterprises were gradually brought into being in the course of the industrialization process, without any predetermined plan, notably in relation to the various branches of the twin sectors of transport and energy. As was to be expected, these two characteristic features were definitely consolidated in the institutional framework, in the course of the execution of the Target Plan.

The constitution of special financing funds has been criticized on account of the increasing rigidity introduced into the pattern of public expenditure. It is esti-

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connexion with those highways for which provision is made in the National Plan approved by the Legislature and controlled by DNER.

*Fundo Nacional de Pavimentação.* This Fund, established in 1953 and brought into operation in 1955, consists of 30 per cent of the exchange surcharges payable on imports of petroleum and petroleum products (difference between the petroleum import dollar and the parity rate declared to the International Monetary Fund). It is allocated in the following proportions: 80 per cent for the paving of highways, on the basis of criteria similar to those governing the application of the Fundo Rodoviário; and 20 per cent for replacing branch railways with low rates of traffic density by highways.

*Fundo Nacional de Investimento Ferroviário.* Created in 1962 by means of an appropriation of about 3 per cent of Federal tax revenue, this Fund is earmarked for the modernization and expansion of the railway network, in accordance with a National Plan. In fact, since the beginning of the forties various systems for vesting resources in rail transport programmes have been developed on the basis of railway tariff and freight surcharges. From 1957 to 1962, funds deriving from taxation on fuels (10 per cent) were used for building up the capital of the holding enterprise in this sector. Only now, however, as the reflection of a substantive change in national transport policy, have considerable sums been allocated to this branch of activity.

*Fundo Portuário Nacional.* This Fund was constituted in 1958, on the basis of maritime freight surcharges and a proportion (8 per cent) of the revenue for customs duties. Its aim was to guarantee substantial resources for the port and harbour projects defined in a national plan, for which the resources previously available had been negligible.

*Fundo de Marinha Mercante.* Organized in 1958, in order to increase the tonnage of the merchant fleet and ensure reservation of the market for Brazil's incipient ship-building industry, this Fund is composed of freight surcharges and a proportion (32 per cent) of revenue from the customs clearance charge (5 per cent of the value of the goods imported).

*Fundo Federal de Eletrificação.* This was formed in 1954, on the basis of taxation on electric power and 4 per cent of the revenue accruing from the federal tax on consumption. Substantial as were the resources at its disposal, the Fund proved inadequate in face of the magnitude of the investment needed by the sector. In 1962 it was strengthened by the increase of the traffic rates for electric power consumption and their conversion from specific to *ad valorem* terms, as well as by means of a compulsory loan operation.

Mention may be made of other appropriations vested in the transport and energy sectors. Funds deriving from the launching of a compulsory loan arrangement with owners of vehicles and other consumers of petroleum and petroleum products, from total taxation on motor-vehicles and imported or domestically-produced spare parts, and, in 1957-62, from a proportion (15 per cent) of taxes on mineral fuels, were channelled into PETROBRAS, for capital formation purposes. In view of the high rate of return in the petroleum sector, the subsequent constitution of a permanent financing fund was not necessary. For the construction and improvement of airports, 15 per cent of the customs clearance charges was allocated in 1957, forming the Fundo Aeronáutico. And, lastly, in 1960, 1.5 per cent of federal tax revenue was earmarked for the Comissão Executiva do Plano do Carvão Nacional, basically with a view to the construction of thermo-electric plants and small steel mills consuming low-grade coal which had to be produced and which was no longer used by the railways because of the introduction of diesel engines. It was hoped that this would be a means of solving the structural crisis in the coal industry.

mated that in 1964 42.3 per cent of the Federal Government's budgetary income is earmarked for specific purposes.<sup>41</sup> However, it should be recognized that, in the conditions prevailing at the present stage of Brazil's history, what the constitution of these funds amounts to is the establishment of a fragmentary system of long-term public investment planning. More rational and appropriate alternative procedures could of course be propounded. But since so far all schemes of this kind have failed, it may as well be acknowledged that the system of earmarked funds, because of its direct relation to the real and immediate interests of public works entrepreneurs and producers of heavy equipment, is in harmony with the outlook of the authorities and of the general public. It is, in fact, a primitive form of public investment planning, and lays the foundations on which a better system can subsequently be built up.

Similarly, some have sought to detect doctrinaire leanings in the continual organization of state enterprises. Here again, despite the exception constituted by the petroleum enterprise, the course pursued has been much more a matter of adopting solutions imposed by the objective conditions of economic change, than the outcome of a deliberately doctrinaire policy. This assertion is corroborated not only by the attitude of the state enterprises, which, in essence, serve the interests of private industry (selling products at convenient prices, specializing in the lines of activity whose rate of return is lowest, etc.), but also by the very process through which the state acquired ownership of many of the units concerned. In some instances (for example, the transport network) they passed into the hands of the state when they ceased to be profit-making (either on account of subsidized prices or because of the rise in operational costs), which really meant that the burden of subsidizing consumption was transferred to society as a whole. In other instances (the energy and steel-making sectors), the state became the entrepreneur when the functions of a producer were forced upon it by the private sector's inability or unwillingness to undertake activities whose development was intrinsically to the interest of its members as consumers of the inputs manufactured. The argument that if the state became a producer on account of the low rate of return of enterprises, this was because power prices were fixed at such a level as to render the sector non-profit-making, can be refuted by the question: who reaped the direct benefit of the low power tariff, the state or the industrial consumer? Any analysis clearly shows that the policy of state enterprises was in line with the immediate interests of the industrial sector. Similarly, it is difficult to find any case (save that of petroleum) in which an activity was diverted into the hands of the state against the will of the sector which in practice formulated the economic policy of Brazil.

Be this as it may, the combination of financing funds plus state and semi-public enterprises unquestionably constituted the mainspring of the Target Plan's machinery for pursuing those sectoral objectives that were the direct responsibility of the public sector. In view of the system established, each sectors' programme was bound to be worked out separately. It is true that the essential nature of the sectors concerned gave rise, however restricted their programming approach, to some

<sup>41</sup> Draft federal budget for 1964.

consideration for and reference to the other sectoral targets. This procedure, however, would have been only an erratic and unsatisfactory means of ensuring the compatibility of programmes, but for the emergence of the Banco Nacional de Desenvolvimento Econômico (BNDE) to discharge the necessary role by acting as a supplementary financing agency and by guaranteeing loans in foreign currency.

In 1952, under the pressure of the tasks imposed by the rapidity of economic growth, BNDE was set up as a credit institution specializing in long-term financing for the development of the key sectors of the national economy. The Bank is authorized to co-operate in the financing of projects relating to railway transport, port facilities and waterborne traffic, generation of electric power, basic industries, storage and processing of agricultural commodities, mechanization of farming, rural electrification and the supply of potable water. It recently began to operate on a modest scale in the sphere of financing sales of domestically-produced capital goods.

Apart from granting credits on the basis of low rates of interest and long amortization periods, the Bank is empowered, in relation to the activities listed above, to guarantee loans or other financing facilities obtained from abroad, to underwrite, temporarily or permanently, part of the capital of enterprises and to issue loans to entrepreneurs and suppliers for the purposes of the projects considered.

The financial mainstay of BNDE is the Economic Re-equipment Fund (Fundo de Reaparelhamento Econômico), formed by income tax surcharges and compulsory deposits of a proportion of the technical reserves of insurance and financing companies. In addition to these resources, the Bank has received deposits deriving from internal sales of United States agricultural surpluses (under the Wheat Agreements). BNDE is also the custodian of some of the earmarked funds, although they have not the mobility of the resources enumerated above, and the Bank's powers of intervention are slight. The sources of its assets are shown in table 28.

Table 28

BRAZIL: INVESTMENT CAPACITY OF BNDE, 1952-62  
(Millions of cruzeiros at current prices)

Year	Net resources <sup>a</sup>	Resources obtained through loans <sup>b</sup>	Direct allocations made by insurance companies <sup>c</sup>	Returns on financing operations	Total resources
1952	21 <sup>d</sup>	370	—	—	391
1953	8	1 205	—	—	1 213
1954	58	714	—	—	772
1955	143	1 416	—	84	1 643
1956	399	1 446	193	96	2 134
1957	690	5 085	165	189	6 129
1958	1 224	6 393	208	463	8 288
1959	2 345	9 515	404	387	12 651
1960	4 234	13 362	462	347	18 407
1961	7 468	23 385	480	1 399	32 732
1962	11 526	22 156	742	1 827	36 251
1952-62	28 116	85 049	2 654	4 792	120 611
Percentage break-down	23.3	70.5	2.2	4.0	100.0

SOURCE: BNDE, *Relatórios*.

<sup>a</sup> Difference between income from services (interest, commissions on guarantees, dividends on company shares, etc.) and overheads.

<sup>b</sup> This item comprises the income tax surcharge, deposits made under the Wheat Agreements (withdrawal of a proportion of the product of sales of United States surpluses) and 25 per cent of the annual increase in the technical reserves of insurance and financing companies. It should be stressed that in 1952-62 the income tax surcharge contributed 79 per cent of receipts under this head, while the shares of the Wheat Agreement deposits and the insurance and financing companies were 20 per cent and 1 per cent, respectively.

<sup>c</sup> In the case of insurance and financing companies, an alternative procedure to that indicated under the preceding item was the direct allocation of 40 per cent of the annual increment in their technical reserves to projects approved by BNDE.

<sup>d</sup> Including the initial capital of 20 million cruzeiros.

The facilities granted by BNDE are conditional upon an evaluation of many aspects of the projects submitted, ranging from their technical and financial viability to their macro-economic compatibility and significance. Once it has agreed to co-operate, the Bank follows up the physical evolution of the investment, and in many instances actually comes to control the operation of new units by making the release of approved resources contingent upon compliance with certain requisites. From this account, it is easy to see what extensive powers of control are wielded by this institution, since it is

the only investment bank at the national level and its faculties include the granting of such potent incentives.

In view of the relative inadequacy of the resources vested in the Funds and the necessity of obtaining external credits, BNDE, performed a useful function in reconciling decisions and establishing orders of priority, as well as in connexion with the execution of the projects financed. If in relation to governmental activities in the basic social capital sectors BNDE exercised these important functions, it played a still more prominent role in relation to the second set of Target Plan objectives:

the expansion or installation of industries producing basic inputs and capital goods.

In this sector, the Bank made use of two incentives that were particularly important and efficient with regard to the channelling of private investment. The first consisted in the granting of long-term financing at a low rate of interest, which, given Brazil's inflationary process, and in the absence of an organized capital market, was absolutely vital to investment in the sectors referred to above. The second, which lay in the extension of guarantees to external financing operations, removed an important obstacle to the possibility of obtaining these indispensable foreign credits, and consequently conferred on the Bank considerable power to direct the activities of private enterprise.

This investment Bank, through which public sector programmes were virtually bound to be channelled, also secured greater compatibility between sectoral programmes and decisions, inasmuch as it used its faculties in accordance with economic criteria beyond the grasp of isolated units. Thus BNDE tacitly fulfilled the function of a centre for the analysis of government programmes, and for this reason too was a cornerstone of the Target Plan.

#### (b) *Instruments for channelling private sector activities*

In relation to the targets for whose attainment the private sector was responsible, a variety of incentives were brought into play, to which allusion has been made in an earlier section. By means of a combination of different expedients, centring primarily upon the manipulation of exchange instruments, the Government guaranteed various types of advantages to the industrial sectors to be developed.

In the first place, it substantially reduced the nominal costs of investment. As the exchange system was organized in watertight markets, with multiple exchange rates, the granting of preferential rates to imports of capital good was tantamount to liberally subsidizing the installation of industries. This advantage was generally supplemented by exemption from import duties, so that by virtue of the two concessions in conjunction the cost of imported capital goods was low. To these benefits, available to all the activities which the Government wished to encourage, was sometimes added the low financial cost of the long-term credits granted by BNDE.

Entrepreneurs were likewise ensured access to financial resources through government loans, or, more important still, through BNDE's official guarantee of the credits they obtained from abroad. These two procedures by making it certain that loans could be amortized over long periods without monetary adjustments, not only rendered investment possible, but represented, at a time when the internal price situation was rapidly deteriorating, an additional and unforeseen subsidy to private investment. In some cases, operational rates of return were increased through the concession of preferential exchange rates for external purchases of the inputs used in the activities concerned (motor-vehicle industry and shipbuilding).

Various procedures were applied in order to reserve the market for the nascent industries. Before the 1947 customs reform, the mechanism consisted in the control of the supply of foreign exchange for the various import categories. Subsequently, the same function was dis-

charged by the customs tariff, although in many cases direct quantitative import restrictions subsisted. It is important to note that the channelling of government expenditure into the newly-installed activities was of fundamental importance for the development of certain industries, particularly those producing electrical and railway equipment and shipbuilding. Similarly, shipping companies enjoyed a reserved market, inasmuch as a rule was established that any materials or equipment manufactured had to be carried in the country's own bottoms.

The year 1957 witnessed a reform of customs tariff legislation whereby the scales of specific rates established in 1937, and completely vitiated by the rising trend of internal prices, were replaced by strongly protectionist *ad valorem* rates. Industrial development and the need for increasingly complex decisions, as well as the necessity of increasing federal tax revenue, made this modernization an essential step. But in this reform the Legislature seems to have improved upon the prevailing empiricism that determined the forms taken by the instruments of economic policy. In view of the importance that subsequently attached to the application of the tariff, and the degree in which this instrument was adjusted to Brazil's particular problems, a pause is worth while to evaluate some of its principal characteristics.

The five import categories established in 1953 were reduced to two. Multiple exchange rates were maintained only for specific luxury goods, in respect of which it was considered expedient to keep up the quantitative control of the foreign exchange supply. The other differential exchange rates were superseded by discriminatory tax treatment. The situation of the sectors that had previously enjoyed subsidized rates remained unchanged.

The Conselho de Política Aduaneira (CPA) was instituted to put into effect, within certain limits, the changes in the customs tariff. It was composed of representatives of the entrepreneurs, of the workers and of the Government, and was thus a microcosm of the main forces operating in the economy; the faculties assigned to this Council enabled it partly to formulate Brazil's import policy.

The Council enjoys the following general powers: (i) classification of goods in one of the import categories (general and special); and (ii) modification of rates within a range of 30 per cent above the maximum and below the minimum for each chapter of the import schedule (sub-group of products classified under one head).

These powers are wielded by CPA through the technical and economic examination of the applications submitted. In view of its composition, its decisions are *bona fide* reflections of the wishes of the country's economic sectors, and seek to reconcile conflicting points of view, for the interests of trade, industry and agriculture, which it represents, are not always identical in such matters. It is important to emphasize that the institution of the Council has given the application of the customs tariffs the efficiency and pliability which are indispensable attributes for the operation of any instrument in a country that is undergoing a rapid process of economic change. It was really the removal of the mental taboo on delegating tax powers to the Executive which raised the status of the tariff as an efficient and flexible instrument of development policy.

There is a manifest conflict of objectives as between the partial or total exemption from customs duties of the capital goods and basic inputs used in the installation and operation of new activities, as an important incentive to their establishment, and the customs protection needed to encourage the substitution of domestic production for these same imports, which is the aim pursued at the present stage of Brazil's industrialization process. In order to overcome this difficulty, the new customs legislation set up various mechanisms, simultaneously granting incentives in the shape of facilities for importing capital goods at low prices, and reserving markets for the domestic producers of capital goods. Herein lies one of its most significant characteristics, best fitting it to serve the ends of development policy. The legislation made provision for the following means of reconciling the conflicting interests referred to:

(i) The application of tariff quotas to specific products, whereby tariff exemptions or reductions are guaranteed for a given volume of imports. A whole list of basic inputs is subject to this system, or variants of it: wheat, asbestos, coal, lead, aluminium, rubber, spare parts for vehicles and steel plate for shipbuilding;

(ii) A 50-per-cent reduction of the tariff applicable to imports of capital goods, which is generally high (averaging 60 per cent), provided that the central organ of the industry submits proof of the impossibility of obtaining the item concerned within the country;

(iii) Lastly, the "*registro de similar*" as it is called—roughly, a "certificate of equivalence"—accorded when an industrial sector, upon investigation by CPA, shows itself to be fully capable of satisfying domestic demand for a particular item, in respect of both quantity and quality. This is tantamount to a certificate of maturity for the industry concerned, and once it has been issued, no further exchange or tax concessions can be granted to imports of the article in question.

In addition to these procedures, the Government grants direct subsidies to some intermediate industries (fertilizers, newsprint and pulp), according to the volume of domestic output, in an attempt to help sectors receiving subsidized imports to become profit-making. The resources used for subsidies to domestic producers are obtained from exchange surcharges. The establishment of *ad valorem* tariff rates with a high average incidence, the creation of a flexible and autonomous agency, the built in provisions for change, the possibility of granting exemption from customs duties to capital goods and basic inputs, and the fact that no concession could be granted without a prior macro-economic analysis of the pertinent application, were all features which made the 1957 customs legislation the most important instrumental reform in Brazil's experience. In fact, the concern it shows for the quality of the instrument makes it a unique exception to the traditionally empirical approach to fiscal instruments. The combination of the tariff and the Council constitutes the most precise and well-adjusted instrument of economic policy existing in Brazil.

The basic concepts governing exports markets and exchange systems, as well as financial transactions, remained virtually inviolate throughout the period of the Target Plan. There is no need to stress the importance of the policy of incentives to the inflow of external savings as an instrument for channelling investment within the over-all framework of the Plan. It is worth while, however, to draw attention to the executive ma-

chinery for co-ordination, inasmuch as so wide a variety of concessions and incentives to industrial activities, granted through different agencies, made a measure of co-ordination essential. One of the Plan's most characteristic innovations was the creation of what were designated executive groups, whose function was to determine the scale and scope of sectoral programmes for priority industries, establish guidelines and standards, and grant incentives or suggest to other federal organs that they be granted. These administrative units proved an efficient type of machinery, and increased and multiplied throughout the course of the Plan. In fact, their existence partly made up for the lack of over-all planning of private investment.

The attainment of the various ends contemplated in the Target Plan, especially those for which the private sector was responsible, necessitated the creation of special administrative bodies of a collegiate type, which brought together representatives of the agencies whose duty it was to apply the various instruments, so that they could jointly formulate the policy applicable to a specific industrial activity. With powers of varying scope, but subject to this basic guiding principle, executive groups were set up in relation, *inter alia*, to the motor-vehicle industry (Grupo Executivo da Indústria Automobilística—GEIA), shipbuilding (Grupo Executivo da Indústria de Construção Naval—GEICON), agricultural and roadbuilding machinery (Grupo Executivo da Indústria de Máquinas Agrícolas e Rodoviárias—GEIMAR), the engineering industry (Grupo Executivo da Indústria Mecânica Pesada—GEIMAPE), iron ore exports (Grupo Executivo de Minerios de Ferro—GEMF), storage (Comissão Consultiva de Armazens e Silos) and the manufacture of railway equipment (Grupo Executivo da Indústria de Material Ferroviário—GEIMF).

This administrative device was no novelty in Brazil, since as far back as 1954 a council for the co-ordination of supplies (Conselho Coordenador de Abastecimento) had been set up to define policy in this sector and to co-ordinate the development of storage programmes. Only in the second-half of the fifties however, during the execution of the Target Plan, did such arrangements become a common practice. Consequently, for the development of private industry much the same sort of system of sectoral programming was established as for transport and energy at the level of government investment.

A rapid glance at the best-known and most active of these groups—that of the motor-vehicle industry—will give some idea of the *modus operandi* of these new administrative units. GEIA was formed by representatives of the Banco do Brasil's foreign exchange and foreign trade departments, of CPA, of BNDE, of SUMOC and of the principal ministries concerned. Under the plans drawn up for the motor-vehicle industry, enterprises which fulfilled certain requisites (the attainment of given proportions of domestic content, in terms of the weight of the vehicle, by specified dates) enjoyed a variety of concessions: reservation of foreign exchange, at a stable and subsidized rate, for imports of spare parts; a preferential exchange rate for repayment of external credits and loans; duty-free importation of capital goods and spare parts; provisional exemption from excise taxes on motor vehicles (other than private cars); official financing by the Banco do Brasil, for periods of one to three years, of exchange surcharges deriving from imports of spare parts; and, on occasion, long-term

financing accorded by BNDE for investment purposes. After studying and approving the different projects submitted by manufacturers of vehicles and spare parts, GEIA authorized the extension of the above-mentioned benefits. Similarly, the Group saw that the directives issued were implemented, proposing the measures it deemed necessary. In view of the nature of the Executive Groups, their proposals were hardly likely to be passed over, since in them the various official bodies were represented in conjunction. Thus, besides serving the sectors concerned as centres for the co-ordination of incentives, they were the means of removing bureaucratic stumbling-blocks to the attainment of the sectoral objectives pursued.

In contrast with GEIA's long life and high degree of autonomy, some of the groups organized under the Development Council proved ephemeral; but others, like GEICON, became the nucleus of permanent bodies.

(c) *The Target Plan co-ordination system*

One of the salient features of the Target Plan was undoubtedly its pragmatic approach to the problem of the instruments to be adopted. With respect to the co-ordination of programmes, another symptom of that realism was the unofficial institution of a group of co-ordination centres while the Plan was in process of execution. These centres came into being, or were adapted to the task of reconciling the various aims, as a result of the shortage of resources (both external and long-term internal financing). In other words, they did not emerge, or perform their co-ordinating functions, by virtue of a previous decision based on realization of the need to reconcile the different aims, but because of limitations which compelled the authorities responsible for the execution of the Plan to bring its objectives into harmony.

Although efficient, the Executive Groups and the administrative units managing the earmarked funds could co-ordinate the instruments of policy only in relation to sectoral goals, considered individually. Hence the need to adopt expedients for over-all co-ordination of the programmes of private industry and public enterprise during the Target Plan period. The first such device was the control exercised by the Banco Nacional do Desenvolvimento Econômico (BNDE), through which, for different reasons (but nearly always because it was BNDE that provided the guarantees indispensable for obtaining external financing), the sectors enjoying preferential treatment generally had to operate. This bank, by virtue of its structure and methods of operation, fulfilled the same co-ordinating function in relation to the private sector as in respect of public investment in infrastructure.

The second instrument that facilitated a measure of over-all control of private-sector projects was the so-called foreign exchange budget, whose estimates of Brazil's expenditure under the head of external payments lined up and co-ordinated exchange operations in the private sector. The co-ordinating agency in this case was the Council of SUMOC, which inasmuch as it authorized imports at a preferential exchange rate, exercised control by setting ceilings for the country's various foreign exchange operations.

The long-standing shortage of foreign exchange and the practice of direct intervention in exchange operations resulted in the gradual establishment of an account-

ing system for controlling and estimating future foreign exchange receipts and expenditure. These practices, initiated in 1948, were institutionalized in 1953 in the shape of the exchange budget—an estimate of foreign exchange operations which, after approval by the Council of SUMOC, became law. During the Target Plan period, the budget specified the amount of foreign exchange to be used for operations that were subject to permits, setting a limit to the exchange allocations authorized by CACEX. The sums authorized for imports not requiring licences and the appropriations for government bodies or for commitments were likewise assigned to the Foreign Exchange Department (*Carteira de Câmbio*). Thus, the two portfolios of the Banco do Brasil in which exchange operations were centralized were confined within the limits predetermined in the exchange budget, which was an expression of Brazil's external payments policy. Through it, in one way or another, imports of capital goods were subjected to over-all control. It should be borne in mind that the entire policy of external borrowing was formulated, in over-all terms and project by project, with the approval of SUMOC, and that these imports without immediate exchange coverage constituted, as has been seen, the key component of investment under the Plan. The budget was therefore an additional means of exercising control over Brazil's investment process as a whole. Under an important regulation, all government agencies were obliged to keep within the limits specifically established in the exchange budget, and any changes had to be studied and approved by the Council of SUMOC. Hence that agency was responsible for indirectly co-ordinating public investment policy through direct control of the import component.<sup>42</sup>

Thus, it will not be amiss to stress that if, on the one hand, internal conditions were not such as to necessitate the establishment of a central planning system—the experience of the Development Council<sup>43</sup> is significant in this respect—on the other, the type of aims pursued did make it needful to set up, without a preconceived plan, an efficient system for the programming and execu-

<sup>42</sup> For detailed information on this instrument, see Sydney Latini and Ricardo Moura, "O orçamento de câmbio no Brasil", *Economia Brasileira*, vol. II, 1955.

<sup>43</sup> The Development Council (*Conselho do Desenvolvimento*), set up in 1956 as a direct dependency of the Office of the President of the Republic, was composed of the ministers and the most important directors of government economic agencies. It was founded with the ambitious purpose of its becoming an agency for the formulation and co-ordination of over-all economic policy. Article 2 of its statutes defined its terms of reference as follows:

"To study the steps that should be taken to co-ordinate Brazil's economic policy, particularly as regards its economic development; to draw up plans and programmes aimed at raising the level of efficiency of government activities and at fostering private enterprise; to analyse reports and statistics in connexion with the development of the various sectors of the economy; to study and prepare the bills, decrees and administrative regulations deemed necessary for the fulfilment of its aims; and to keep abreast of the implementation of the measures adopted." On the basis of these terms of reference, the Council should have become the central economic planning agency. The fact that this did not happen shows that conditions were not ripe for the institution of an over-all planning system. The Council's failure to fulfil the first function contrasts sharply with its success in establishing and promoting sectoral programmes. Instead of fusing and formulating over-all programmes, it became split up into innumerable sub-groups in charge of co-ordinating sectoral policies, which grew in importance and size, while the Council itself confined its activities to supervising the execution of the Target Plan, and to presenting the relevant annual reports.

**Synopsis of Target Plan instruments**

<i>Targets for which the responsibility falls on</i>	<i>Sectoral programming by</i>	<i>Economic policy measures</i>	<i>Agency responsible for enforcing the measure</i>	<i>Co-ordination and integration of the plan as regards</i>	<i>Examination and provisions in regard to the macro-economic priority of the project</i>	<i>Record of progress made by the programme</i>
The public sector	Non-governmental body and public enterprise	Earmarking of funds.....	Various (DNER, CMM, DNEF, etc.)	Impact on balance of payments (exchange budget) and external borrowing (register of foreign capital) (SUMOC)	BNDE (Internal borrowing and granting of <i>aval</i> )	Development Council (Conselho do Desenvolvimento)
		Tax exemption .....	CPA			
		Subsidized exchange .....	SUMOC			
		Financing in national currency .....	BNDE and Banco do Brazil			
		External financing .....	SUMOC and BNDE ( <i>aval</i> )		CPA (Tariff changes, certificate of equivalence and change of import category)	
The private sector	Executive groups	Tax exemption and reduction .....	CPA	Impact on public funds (long-term financing) (BNDE)	SUMOC (register of foreign capital)	
		Reservation of markets:				
		Customs tariff .....	CPA			
		Exchange control .....	SUMOC			
		Certificate of equivalence	CPA			
		Financing in national currency .....	BNDE and Banco do Brazil			
		External financing .....	SUMOC and BNDE ( <i>aval</i> )			
		Subsidized exchange .....	SUMOC			

tion of sectoral policies. Lastly, conditions in the external sector, which made for a rigid and irreducible capacity to import, and, as a secondary factor, the lack of an organized capital market,<sup>44</sup> led to the establishment of machinery for the over-all co-ordination of programmes. These moves, which were in keeping with the real economic situation and with the past process of change, established the prerequisites for the subsequent setting up of a better and more rational planning system, which is now in its early stages of operation.

The synopsis given below shows the most important channels through which the control centres performed the task of inter-programme co-ordination.

### 3. THE TARGET PLAN AND THE EXPANSION OF THE ROLE OF THE STATE

As previously noted, in the course of the execution of the Target Plan, and in accordance with no preconceived model, a group of instruments was forged which proved to be extraordinarily efficacious in the attainment of objectives. These instruments were set up in response to pragmatic considerations and with a view to immediate action.

Without labouring the point, if the subsequent interest in the reform of instruments is to be understood, it would be as well to bear in mind that the functions of the State became broader in the course of the Target Plan period. This expansion of the Government's responsibilities was accompanied by the institution of a great many instruments. But no concurrent effort was made to redefine the role of the State, to establish the instruments of economic policy on an integrated basis or to remodel the administrative machinery. On the contrary, the creation of a new set of instruments contributed to the disruption and distortion of the previous system, in some degree accentuating the existing disequilibrium, since the new media of action were not organically integrated in the panel of instruments. Thus, the upsurge of interest in effecting a reform of the existing instruments, to restore at another level the balance in the available machinery that had been upset by the intensive process of industrialization based on import substitution, may be regarded as in the natural sequence of events.

One of the most important events at the instrument and institutional level was the radical qualitative change experienced by the State as a result of the industrial development policy followed in the fifties. The quantitative expansion of its presence in the economy has already been described; it is important to show now the extent of the impact which the horizontal and vertical expansion of its functions had upon it and the consequent qualitative change in its structure and institutional character. A description should therefore be given of the fields of action at present open to the public sector, in order to show the scope, wide range and extent of its action in the Brazilian economy.

<sup>44</sup> Although the instruments at BNDE's disposal played a vital role in regulating and furthering the development of the basic and capital goods industries, the most important group of instruments for the channelling of private investment comprised the complex exchange system, the customs tariff and the policy applied to attract savings from abroad.

Brazil's public sector owns and directs the country's maritime-inland waterway and rail transport facilities, and its installations for the production of petroleum<sup>45</sup> and atomic fuel,<sup>46</sup> controls most of the steel-making sector<sup>47</sup> and is rapidly becoming the principal electric energy producer.<sup>48</sup> It takes part directly in the activities of the major export sectors<sup>49</sup> and markets a considerable proportion of the exportable production;<sup>50</sup> it is also the principal iron ore producer and exporter.<sup>51</sup> It exercises a direct and indirect control over the exchange market. In conformity with a provision of the Constitution,<sup>52</sup> it directly regulates exploitation of the sub-soil, communication media and broadcasting channels; also delegates this right through concessions to the private sector. At the same time, it constitutes in itself the major commercial banking enterprise, since it accounts for about 35 per cent of the general credit extended to the private sector through the Banco do Brasil, and most of the agricul-

<sup>45</sup> A state-owned petroleum enterprise, PETROBRAS, was established in 1953, with exclusive responsibility for drilling, extraction, refining, marketing, transport and other allied activities. This sector's policy is formulated by the National Petroleum Council (Conselho Nacional de Petróleo).

<sup>46</sup> On 31 August 1956 the National Security Council (Conselho de Segurança Nacional) formulated the appropriate government Directives for a national nuclear energy policy. They recommended that a National Nuclear Energy Committee (Comissão Nacional de Energia Nuclear—CNEN) should be set up for its application and, at the same time, provided that exports of thorium and uranium oxides should be suspended. CNEN subsequently assumed exclusive responsibility for the production of atomic ores.

<sup>47</sup> The public sector owns the three largest steel mills in Brazil, namely, CSN, COSIPA and USIMINAS. In the latter it is associated with Japanese interests which account for 40 per cent of the total capital. At the same time, small steel mills are being installed or existing ones enlarged, in which the State is the largest shareholder. It also owns two other small mills: Ferro e Aço de Vitória and Acesita.

<sup>48</sup> According to data supplied by the Instituto Brasileiro de Geografia e Estatística (IBGE), the share of public enterprises (State, semi-public and partly based on private capital) in the total electric energy generating potential rose from 9.7 per cent in 1954 to 23.4 per cent in 1961. ELECTROBRAS, the holding company controlling the public enterprises operating in this sector, was established in 1961. According to its 1962 *Relatório Geral*, ELECTROBRAS—through its subsidiary and associate enterprises and by means of advances of funds from the Fundo Federal de Eletrificação and state organizations—contributed 63 per cent of the increase in power achieved in 1962.

<sup>49</sup> Through a group of specialized semi-public agencies, consisting of the Alcohol and Sugar, Maté, Pine and Salt Institutes (Instituto de Alcool e Açúcar, Instituto do Mate, Instituto do Pinho and Instituto do Sal), the Executive Rubber Protection Committee (Comissão Executiva da Defesa da Borracha) and the Brazilian Coffee Institute (Instituto Brasileiro do Café), the public sector possesses full powers to establish production and export quotas with a view to achieving equilibrium in both the domestic and external market. These bodies effect purchases and sales, fix prices and, in short, regulate the activities of the sectors concerned.

<sup>50</sup> The operations referred to in footnote 49 are effected not only by the agencies referred to, but also by the Banco do Brasil. In 1959, for example, it conducted transactions for the purchase and sale of cotton, rice, beans, millet, peanuts, soya, grain wheat, manioc flour, jute and other commodities (Banco do Brasil 1959 *Relatório*). The total expenditure of this Bank in 1961, which was equal to the balance in the purchases and sales account under the head of imports and exports, amounted to 5,500 million cruzeiros (SUMOC *Relatório*).

<sup>51</sup> Through the State enterprise Companhia Vale do Rio Doce, it takes care of approximately 80 per cent of the production and export of iron ore.

<sup>52</sup> Paragraph XII of article 5, and article 153 of the Federal Constitution.

tural credit as well.<sup>53</sup> Through other specialized financing agencies it grants the whole of the co-operative credit<sup>54</sup> and long-term financing.<sup>55</sup> It establishes wages,<sup>56</sup> interest rates,<sup>57</sup> rents<sup>58</sup> and staple commodity prices.<sup>59</sup> It sets minimum agricultural prices,<sup>60</sup> and is beginning to build up and operate a large-scale storage and marketing system for agricultural commodities.<sup>61</sup> It possesses full traditional powers to impose taxes.<sup>62</sup> It exercises control over monetary flows.<sup>63</sup> It produces alkalis<sup>64</sup> and trucks.<sup>65</sup> It also plays an important part in internal capital formation.<sup>66</sup> It regulates insurance activities<sup>67</sup> and

<sup>53</sup> In 1959 the Banco do Brasil contributed 44 per cent of total credit and 34 per cent of private sector credit. The same year, its share in the credit extended to agriculture and livestock production was 52 per cent (Banco do Brasil, *Relatório*).

<sup>54</sup> The Banco Nacional de Crédito Cooperativo, set up in 1951. In 1960 it granted some 2,000 million of this specialized credit, mostly to producers' co-operatives.

<sup>55</sup> BNDE services the infrastructural sectors on a nation-wide scale. The Banco de Crédito da Amazônia and the Banco do Nordeste do Brasil finance regional projects. Other financing agencies of this type, organized by the State Governments, also merit attention.

<sup>56</sup> Since 1943 the National Department of Labour has established minimum wage levels for urban workers.

<sup>57</sup> There is a legal ceiling on the interest rates that may be charged in Brazil (12 per cent per annum). Bank rates of interest are fixed by SUMOC.

<sup>58</sup> Brazilian law prevents the raising of housing rentals that are already established. This legislation is gradually being relaxed with a view to freeing rents completely.

<sup>59</sup> A federal supply and price committee (Comissão Federal do Abastecimento e Preços—COFAP) was established in 1951, with powers to intervene in the staple commodity market, to carry out compensatory operations and to fix prices for these items. Its functions are now performed by the recently created national supply agency (Superintendência Nacional do Abastecimento—SUNAB).

<sup>60</sup> Scales of agricultural prices were established in 1951, in conformity with which the Government was required to purchase and finance production. It was not until 1961, however, that these scales became practicable for most commodities.

<sup>61</sup> A committee for the organization of wheat growing and storage (Comissão Organizadora de Triticicultura Nacional e Armazenamento Geral—COTRINAG) contributed about 60 per cent of the total capacity of the storage facilities and silos constructed in 1955-60. At the same time, some of the State Governments also invested in this sector, accounting for approximately 25 per cent of installed capacity in 1956-60. Thus the public sector was responsible for about 85 per cent of the increase in capacity obtained during the period (Development Council *Relatório*).

<sup>62</sup> Brazil's Constitution not only explicitly authorizes a broad tax basis, but it also opens up the possibility of instituting new taxes.

<sup>63</sup> Directly through its banks, and indirectly through the operation of the traditional monetary instruments of SUMOC and the Banco do Brasil.

<sup>64</sup> The State-owned Companhia Nacional de Alcalis accounted for the whole of Brazil's production of sodium carbonate. Caustic soda was produced by the private sector, since the state-owned company's facilities for the production of this commodity would not be put into operation until the sodium carbonate output reached a capacity of 300 tons daily.

<sup>65</sup> In 1961 the state-owned enterprise, Fábrica Nacional de Motores, produced 454 luxury private cars and 2,224 heavy lorries, being the largest domestic producer of the latter type of vehicle (*Anuário Estatístico do Brasil*).

<sup>66</sup> In 1960, the public sector contributed 48.1 per cent of fixed capital formation, including the investments of state enterprises.

<sup>67</sup> A semi-public federal reinsurance institute (Instituto de Resseguros do Brasil) controls reinsurance operations, and regulates the scales of insurance companies and, in part, the allocation of their technical reserves.

controls agricultural co-operatives.<sup>68</sup> It markets the country's entire output of natural rubber.<sup>69</sup> It determines the composition of private investment and intervenes in the capital market.<sup>70</sup> As can be seen, therefore, the State has important and widely varying powers in Brazil.

The economy was thus subjected, so to speak to "official state control", which means the existence of a State which acts directly as an important producer in the strategic sectors of the economy and indirectly controls a major part of the private sector. The balance of forces was noticeably upset, swinging now in favour of the public sector. As might be expected, this fact recently spurred the entrepreneurial sector to action, even though it had essentially benefited from the aforementioned expansion of the role of the public sector. This reaction may have been due to the fear of a logical move whereby the quantitative accumulation of new functions might have engendered, or be in process of engendering, an entity imbued with new qualities.

In addition to the qualitative change in the role of the State, other changes were implicit in the development attained under the Target Plan. Two of them deserve special mention. The first is the close solidarity forged between Brazil's capital goods industry and its public investment policy. In the past, the Government had represented a market for capital goods equivalent to that offered by the private sector. The bonds thus established will be hard to break and undoubtedly constitute an important determining factor of the future trend of the economy. The second consists in the dependence of enterprises for their working capital on credit opened by official banks. This dependence, instead of being attenuated, was accentuated during the execution of the Plan, owing to the tapping of resources from private banks.

As noted above in connexion with the group of instruments utilized by the Plan, while co-ordination machinery was instituted in response to pragmatic considerations, the cleavage in the operation of the remaining instruments was aggravated. Even in the case of the organized machinery, the co-ordination attained was clearly less and less adequate in the face of the greater complexity of the economy and the heavier responsibilities incumbent on the public sector. Accordingly, as the Plan neared its end, although the situation in itself had improved, it was still unsatisfactory in relation to the new State and the new demands it had to face.

The manifest indifference to the question of instruments and institutions, which was largely the cause of their inadequacy, was made possible solely by the characteristics of Brazil's process of change. The development of the dynamic centre (Centro-sul area) was mostly independent of the trends followed by the other sectors and areas. Except in a few cases, which were always decided in its favour, the pursuit of multiple aims did not vitally affect its interests; it even served as a means of allaying the demands and obtaining the political sup-

<sup>68</sup> The Ministry of Agriculture controls and channels the co-operative movement in Brazil.

<sup>69</sup> The financing agency in this sector is the Banco de Crédito da Amazônia, and its policy is dictated by the Comissão Executiva da Defesa da Borracha Natural.

<sup>70</sup> The Ministry of Finance, SUMOC and, directly, the Banco do Brasil can resort to different measures to exercise control over the various sectors of the capital market.

port of the periphery for the decisions taken by the dynamic sector.<sup>71</sup> From another standpoint, both the mental inertia noted, which made for the constitution of an interventionist State on such a scale without any attempt to redefine it, and the indifference to the economic merits of the existing set of instruments, instituted and co-ordinated in response to empirical and inept systems, also stem from the slow process of change. In point of fact, this process was never at any time faced with a situation which could not be dealt with by means of partial adjustments. It never encountered barriers which could not be overcome without a complete transformation of the structure of the State and the resulting mental challenge.<sup>72</sup> Brazil's policy-making process was never at a cross-roads between stagnation and complete revision. In this sense the process of change came about "smoothly", resulting in the "waste" caused by the ill-adapted opera-

tion of instruments. It is only now that it has become a matter of prevailing concern to adapt the State and render its instruments more efficacious vis-à-vis a more complex structure and set of problems.

It must not be forgotten that, despite the importance of the State's role in the economy as a result of the efforts to achieve industrialization, its expansion did not conflict with the most essential of Brazil's economic institutions: private ownership and the system for allocating gains in productivity. On the contrary, in a sense it conduced to and confirmed those social rules. Unchallenged by the process of change, these basic institutions escaped the tensions involved in the efforts to establish appropriate instruments.

Lastly, it should be remembered that in a situation of dynamic growth which served to dissolve the prevailing tensions, the economic policy decision-making centres were won over by the more dynamic entrepreneurial sector. Having consolidated its decisions-making powers, this sector was able to shunt any conflicts into the wings of the policy-making process, establishing the provisions of particular interest to it outside the bounds of legal texts. Since the secondary sector wielded no such preponderant influence, the policy argument could hardly help coming to a head and leading to instrument reforms.

Nevertheless, however favourable such developments may have been for the formulation and implementation of an economic policy, the growing inadequacy would sooner or later reach the pitch where it would precipitate a reform of the existing instruments and institutions. Before describing the reforms accomplished or proposed in the last few years, an outline should be given of the circumstances which helped to bring such inadequacy into focus.

<sup>71</sup> For example, at the beginning of the thirties the National Department of Drought Control (Departamento Nacional de Obras contra as Sêcas—DNOCS) was already in existence, covering the so-called "polygon of droughts" (Polígono das Sêcas), i.e., the Nordeste area and part of Minas Gerais. The Comissão do Vale do San Francisco (CVSF) was set up in 1948 to prepare and execute a plan for developing the San Francisco River valley, lying partly in Minas Gerais and partly in some of the Nordeste states. Later, a superintendency for the economic development of the Amazon region (Superintendência dos Planos de Valorização Econômica da Amazonas—SPVEA) was created in the first half of the fifties. Lastly, 1959 marked the establishment of a regional economic development agency for the North-east (Superintendência do Desenvolvimento Econômico do Nordeste—SUDENE); but this body is now beset by far more complex problems which are reviewed in another part of the present article.

<sup>72</sup> The 1946 constitutional framework permitted the State to make full use of its juridical powers, which made for continuity of the process of economic change.

## VI. THE LAST THREE-YEAR PERIOD: FAILURE OF ECONOMIC POLICY TO KEEP PACE WITH EVENTS

The Target Plan period saw economic policy, in a sense, taking the lead in the process of remodelling the economy; at that time it showed no signs of vacillation or indecision, betraying that the process of change had got out of hand, or that it was encountering formidable obstacles to the performance of its tasks.

In this respect, economic policy in the early sixties contrasted sharply with the Target Plan. The measures adopted, viewed in sequence, were directed by no clear-cut purpose, but aimed in divergent directions. A swarm of provisions defeated one another's differing ends. None of the proposed systems lasted any length of time; within a matter of months, each gave way to the next. The whole course of events suggested that economic policy was drifting rudderless. Whether because of the series of problems with which the economy had to deal, or because of the lack of political and institutional stability, the measures propounded were of a transient and ephemeral nature.

In these circumstances, it is particularly difficult to interpret the factual aspects of economic policy. Any systematic grouping of the thousand and one measures adopted and shelved gives the shifting patterns of economic policy a fallacious appearance of cohesion and consistency. It is very hard to avoid this suggestion. A warning must thus be given at the outset against any

false impression that might be created by the classification attempted here merely as an expository device.

Accordingly, there are two special difficulties besetting the interpretation of economic policy in the last three years; the lack of perspective, and the want of guiding principles behind the mass of measures adopted. From one point of view, it is precisely in this absence of a clearly-defined economic policy, this reversal of what took place in the earlier period already analysed, that the most revealing aspect of the situation lies. It suggests, and up to a point substantiates, the notion that the Brazilian economy is passing through a transitional phase, similar to that of the early thirties, but in this case brought about by the exhaustion of the possibilities for rapid growth and industrialization inherent in the historical pattern of development by way of import substitution.

The failure of economic policy to keep pace with events was not altogether dissociated from the uncertainty of the political and institutional conditions prevailing in the three-year period under consideration. The absence of lasting political combinations, of an Executive which united the main party currents for a long spell of time, did not make it easy for any system of economic policy to outlive the initial stages of its application. With every change in political leadership, a new

line of economic policy emerged, which, before it could be consolidated, was superseded by another, and so forth. These were, in a sense, interdependent phenomena, and suggest the operation of much deeper-lying processes in the evolution of the economy. Great as is the interest attaching to the analysis of these questions, however, the period is still too close at hand to be viewed in the broad perspective needed for its historical interpretation.

Furthermore, during these three years there were other factors that helped to give economic policy its ill-defined and fugitive character. They included increasing awareness of the structural disequilibria indicated in earlier pages, and recognition of the striking maladjustments in the existing institutions and instruments. The resulting dissatisfaction, which found expression in the widespread clamour for "basic reforms"—the keynote of discussion during the period—while partly undermining the political foundations of the preceding programme, was unable to secure a solid regrouping of parties on which a new economic policy could rely for support. Nevertheless, echoing the demands voiced by many non-integrated groups which had no access to the instruments, at the disposal of political majorities, statements of economic policy embodied a number of the propositions mooted. Since conditions were not ripe for these new ideas to be given effect, most of the pertinent measures remained mere declarations of principle, and their proliferation in the course of the period made the aimlessness of economic policy yet more marked.

In order to demarcate the specific framework in which the economic policy of the period developed, brief reference must be made to the main economic trends observable—which can be summed up as the acceleration of inflation and the declaration of growth—and to the special problems created by the combination of these two factors, each in itself complex and disturbing enough.

According to the real product indexes estimated by the Brazilian Institute of Economics (Instituto Brasileiro de Economia—IBRE), a dependancy of the Getulio Vargas Foundation, the rate of economic growth, after reaching 7.7 per cent in 1961, dropped to 5.5 per cent in 1962 and 2.1 per cent in 1963. However open to question the estimates for these last two years may be, the trend towards a reduction of the rate of growth is confirmed by even the most optimistic hypotheses.

The various series of price indexes point to a considerable speeding-up of the rate of inflation from 1960 onwards. The deflation index of the gross domestic product series, which in 1960 had shown a rise of 25 per cent, subsequently registered the following increases: 37 per cent in 1961, 51 per cent in 1962 and 73 per cent in 1963. The cost-of-living index, which had soared in 1959 (by 52 per cent), rose in 1960 at the slower rate of only 24 per cent. As from 1961, it too resumed its rapid upward trend, the rate of increase registered in 1963 being 81 per cent.

Economic policy in the three-year period under review revolved around these two phenomena, seeking, without success in either case, some way of dealing with them that would reconcile the maintenance of past growth rates with the mitigation of the inflationary process. But, since it could not bring about the radical changes in the economy that would have made this objective viable, economic policy hovered on the edge of the two trends. Even so, it was inoperative, whether for want of the general conditions described above, which would have given it

the requisite political basis for grappling with tasks of such magnitude, or for fear that relative success in one direction might irremediably affect the possibility of making headway in the other. It continued to sit on the fence, daunted by the foreseeable risks of committing itself to a bolder course, and, in an atmosphere of growing dissatisfaction, saw the various systems proposed crumble one after another.

In face of conflicting objectives which could only be rendered compatible by means of impracticable economic and political reforms, and with the gradual consolidation of the two unfavourable economic trends, the possibilities of manœuvring dwindled, and economic policy, after a five-year period in which it had firmly grasped the reins of economic development, had to trail along in the rear of events.

It was not, however, indifferent to the over-all economic picture, notwithstanding what might be broadly termed its passive attitude to the factors mentioned above. On the contrary, at the formal level of policy declarations, these were extremely prolific years. Never had such a welter of systems and measures been tried out and quickly shelved; never had discussions of economic policy been so much to the fore—a fact which reflected a higher level of political awareness and participation. Whereas the formulation of policy had previously been in the hands of small minorities, new groups now had a say in the adoption of national decisions. Economic policy was not unaffected by this increased complexity in the structure of the body politic. It tried to make some response to the nascent pressure groups. And, since a new balance of power was not established, their emergence helped to throw policy-making into yet worse confusion.

It should be borne in mind that in the three-year period under consideration, despite the failure to define a clear-cut economic policy that can be inferred from the foregoing pages, the swelling proportions assumed by the inflation problem shifted the centre of attention from industrial development to the control of the inflationary process. The latter, from the standpoint of economic policy, ceased to be a secondary issue as compared with the installation of substitution industries, and became at once the mainspring and the goal of policy decisions. The former casual attitude towards this question thus underwent a change.

No longer were exchange, monetary and fiscal measures placed at the service of industrialization without due thought, or the lines of least resistance followed if objectives of the system were thereby furthered, even though the effect was to key up inflationary tensions, or at least bring them to the surface. Monetary policy acquired a new perspective, and genuine, although hitherto not very successful, efforts were made to check the price spiral. For the first time, the inflationary process was officially recognized as the basic problem. Without embarking upon a digression in this context, attention may be drawn to the obvious but seldom-mentioned fact that note was taken of inflation in Brazil only when it came to represent a threat to the system's interests that was no longer theoretical, but real. Inflation had lost its direct usefulness. Its acceleration became an undesirable residuum, a hindrance to the institution of alternative methods of financing for enterprises and for the public sector, which was a *sine qua non* if the economy was to be guided by new and long-term directives. In these cir-

cumstances, the control of the inflationary process became the primary aim of economic policy in 1961-63.

As regards long-term economic development objectives, a trend towards their diversification can be dimly discerned in the three-year period under review. Whether on account of the clamour for "basic reforms", or because of the new demands of a more diversified economic structure, alongside the major effort to fill the gaps in the industrial system, a swarm of piecemeal measures were introduced, aiming at the development of specific areas, the reform of the agricultural sector, the encouragement of industrial exports, etc. These were, so to speak, incipient and sporadic signs of a quest for new lines of expansion for the economy.

The content of these main aspects of economic policy in the last three years may now be considered in greater detail.

### 1. ANTI-INFLATIONARY POLICY

As has been pointed out, the most important modification undergone by economic policy consisted in its change of focus; the former unswerving concentration on industrial development was superseded by concern for the control of inflation. The study of the measures in which economic policy gave expression to its new guiding principle must, however, be preceded by a cursory review of the factors that shaped it and the setting in which it evolved during the years under discussion, so as to establish a frame of reference in which the long procession of short-lived stabilization efforts can be viewed in perspective.

As will now be seen, the factors determining economic policy's change of front were not confined to the dread of hyper-inflation or to the increasing social instability. In other ways, too, inflation posed a problem of immediate concern, in so far as it ceased to provide a means of financing investment: not so much for enterprises, which could safeguard their rates of return by the expedient of price adjustments, as for the public sector, which, compelled as it was to keep its spending within relatively narrow bounds, could not afford to invest on the scale necessary to maintain the dynamism of the economy. It should be noted that the direct dependence of Brazil's capital goods industry on public investment, to which allusion has already been made, introduces an additional complication into the picture, which hinders the effective implementation of conventional stabilization programmes.

There is nothing surprising in an acceleration of the rising trend of prices as the sequel to a persistent inflationary process. It is common knowledge that as inflation proceeds, in the absence of corrective forces, the various agents of the economic system tend to set up machinery which will enable them to react rapidly and so maintain their real share in the economy. The interaction of such mechanisms results in the more automatic operation of those that propagate inflation, and, consequently, in the intensification of the latter process. And another acknowledged fact is that as the inflationary movement gains momentum, it becomes increasingly independent of the real factors from which it originally stemmed.

Accordingly, there is little point in enumerating those basic causes that in Brazil's case gave rise to inflationary pressures, especially as they have already been the subject of various studies. There are, however, some aspects

of the question that have not been properly studied, and that have a bearing on the interpretation of the new inflationary trend. Industrialization on the basis of import substitution, as carried out in the past few years, has built up a significant durable consumer and capital goods sector. Given the nature of these industries, their operation and development tie up more and more working capital. In particular, as the market reserve guaranteed by the external bottleneck is used up, any expansion of sales of such goods becomes increasingly conditional upon the extension of sales credits for longer average periods, and consequently involves a disproportionate increase in the amount of working capital directly and indirectly tied up in the sector. Needless to say, in the course of the industrialization process, this additional demand for resources saddles the public sector with yet another extra responsibility.

These pressures did not and still do not meet with sufficient response from the financing system in the form of a voluntary supply of quantitatively and qualitatively satisfactory savings. In these circumstances, the rate of activity of enterprises could be maintained only on the basis of a monetary expansion tantamount to the intensification of inflationary pressures. The economy's inability to provide the requisite voluntary savings does not seem to be imputable solely to the lack of institutional channels. In fact, the last few years have witnessed the creation of a series of instruments that represent endeavours to secure external financial resources: for the public sector, through the issue of medium-term securities (treasury bills, and export and import certificates); for the private sector, through the juridical constitution of a number of credit associations, the widespread use of bills of exchange, and the stepping-up of stock exchange transactions.<sup>73</sup> But these additional expedients

<sup>73</sup> The processes of industrialization and organization of the domestic market for consumer durables goods and capital goods were paralleled by a proliferation of credit, financing and investment associations, whose main function consisted in the tapping of savings and the granting of medium-term sales credits. To a lesser extent, they also promoted underwriting operations and managed mutual investment funds. Although their establishment had long been authorized, their terms of reference were defined only in 1961. By that date, associations of this type numbered 91, and handled resources in the neighbourhood of 35,000 million cruzeiros. Other symptoms of the constitution of an active capital market were the increase in stock exchange activities and the tendency of large enterprises to offer shares for public subscription as a means of satisfying part of their additional demand for circulating capital. In this connexion, if the expansion of stock exchange transactions in Rio de Janeiro is measured on the basis of the annual increase in the number of shares negotiated, the rates registered for 1960, 1961 and 1962 were 64 per cent, 29 per cent and 55 per cent, respectively.

Long-term financial assistance preceded this private organization of a financing system. However, it is worth noting the tendency on the part of the states to set up new investment banks, supplementary to those already existing at the federal level. To BNDE and the two federal banks of regional scope (BCA and BNB), institutions organized by the States of Paraná, Minas Gerais and Guanabara (to mention only the most important) have been added in recent years. In São Paulo, substantial resources were tied up in sales of capital goods. The Banco do Brasil is preparing to allocate considerable sums to the financing of capital formation in small and medium-sized enterprises. All these bodies grant financing facilities to industrial firms or hold shares in their capital, and represent the public sector's contribution to the organization of the capital market. In this connexion, due note should be taken of the importance of the public sector's practice of obtaining medium-term resources by means of treasury bills, import and export certificates, etc., and thus encouraging the use of savings for the purchase of securities.

proved incapable of supplying the financial requirements of enterprises and of the Government. This is attested not only by the persistence of substantial imbalances in the public sector's accounts, but also by the maintenance of the pressure exerted by enterprises on the banking system.<sup>74</sup>

The need for increasing recourse to this type of financing reflected the *impasse* in which enterprises found themselves, in face of their growing requirements in respect of circulating capital and the steady upward trend of costs, deriving from the inflationary process itself. Since there were no sources of voluntary savings upon which they could draw, the solution seems to have lain in disproportionate price increases, which would not only cover their higher costs but would also guarantee them a rate of return sufficient for their operations to be partly self-financed. Obviously, such price adjustments in their turn exerted pressures on the banking system which reinforced the demands originating in the public sector, thereby giving additional impetus to the cycle of monetary expansion and setting the other propagation mechanisms in motion. Accordingly, the incompatibility of an increasingly capital-intensive structure of production and inadequate financing machinery resulted in a chain of pressures on the monetary system, which acted as a sounding-board for the inflationary process.

Public sector deficits at the Federal level seem to have gained in importance during the period as a factor making for disequilibrium. Between 1961 and 1962, the Federal Government's financial deficit, measured as a percentage of the gross domestic product, rose from 3.9 per cent to 4.9 per cent, as against less than 3 per cent in the two preceding years. At the same time, the proportion of the product represented by expenditure also increased (see table 29). Since adjustments in taxation kept the tax burden at the same level, the bigger imbalance seems to be imputable to a disproportionate expansion of current outlays within total public expenditure, either owing to staffing costs, or because of the substantial subsidies granted to the transport and communications systems, which laboured under a chronic deficit. However, this rise in federal budgetary expenditure was partly offset in 1961-63, in the years when the coffee crop was smaller, by the alleviation of the financial effort involved in the retention of coffee stocks.

For a better understanding of the acceleration that took place in the three-year period, other determining factors should be recalled. The obvious repercussions of political events give them the first claim to attention. In recent years Brazil has experienced frequent socio-political crises which have had a powerful impact on the inflationary process. Their influence has made itself felt in two ways: directly, inasmuch as they were often accompanied by substantial issues of fiat money, as in the case of the crisis at the end of 1961, when these represented approximately 70 per cent of the primary issues in that year; and indirectly, because productive activities

<sup>74</sup> The repercussions of the public and private sectors' pressures on the monetary system gave rise to an expansion of the means of payment which gathered considerably greater speed as from 1960. Their rate of increase rose from 30 per cent in that year to 50.5 per cent in 1961, 63.3 per cent in 1962 and 64.4 per cent in 1963; the main reason why it was not higher in the last-named year was to be found in the control policy adopted under the Three-Year Plan (Plano Trienal) in the first half of 1963.

were thrown out of gear by the general atmosphere of insecurity.

Table 29

BRAZIL: RECEIPTS AND EXPENDITURE OF THE FEDERAL GOVERNMENT,<sup>a</sup> 1955-62

Year	Receipts	Expenditure
1955	8.0	9.2
1956	8.3	12.2
1957	8.1	11.2
1958	8.9	11.3
1959	8.8	11.1
1960	9.2	12.4
1961	9.0	12.9
1962	9.0	14.1

SOURCES: For receipts and expenditure of the Federal Government, SUMOC, *Boletins*; for gross domestic product, *Revista Brasileira de Economia*, March 1962.

<sup>a</sup> As a percentage of the gross domestic product.

Another development which affected the upward movement of prices was the 1961 exchange reform. Although it had beneficial features from the standpoint of export incentives and federal revenue, in so far as it linked the domestic price structure with that of world prices, it also prompted a series of internal price adjustments. In this sense, its effect did not derive solely from the increase in costs of imported goods. The most significant impact on domestic prices was felt in the area of marginal export lines, in which prices became directly related to world market quotations, and which included innumerable foodstuffs and raw materials. After the 1961 reform, a tendency for the rate of exchange to rise parallel with prices is observable. Not only were the official rates more quickly adjusted, but also the new exchange system made it possible for rates compatible with the internal price increases to be established by means of market operations. Although practices of this kind may have a less disruptive effect than the enforced maintenance of an exchange rate based on over-valuation of the currency, with its periodic adjustments, they are conducive to the propagation of inflationary movements.

As regards wage increases, it may be noted that the intervals between them became shorter. Thus, the minimum wage of urban workers, which during the second half of the fifties had remained unchanged, on an average, for twenty-five months at a time, was raised year by year in the three-year period under review. The same trend is observable in relation to the salaries of civil servants. It is worthy of remark that despite the more efficient organization of the trade unions and the advances achieved in labour legislation (institutionalization of the family allowance, payment of thirteenth monthly wage at the end of the year and lowering of the retirement age), the minimum real wage has decreased in recent years in relation to the period 1956-59 (see table 30). Thus the wage component of the inflationary spiral seems to have had merely reflex action as a propagation mechanism.<sup>75</sup>

<sup>75</sup> It may fairly safely be assumed that the series shown in table 30 is representative of the behaviour pattern of real wages in general, at least in the secondary and tertiary sectors, not only because the bulk of the wage-earners are at the minimum wage level, but also because, even at the higher steps, wage increases are linked to the adjustment of the minimum wage (except for

Over against these factors that tended to speed up the inflationary process, two others may be noted in passing which, in different combinations of circumstances, have given it fresh impetus, but which in the period under consideration exerted a neutral or even a moderating influence. Except in 1963, the annual rate of expansion of agricultural production for domestic consumption exceeded 7 per cent. With regard to production for export, the output of coffee appreciably declined from 1959 onwards, and this trend was definitely favourable to the financial operations of the public sector. The Brazilian policy of supporting world coffee prices was based on a system of withholding surpluses, which tied up substantial Federal Government funds. The poor coffee harvests obtained in the last two or three years appreciably relieved the pressure on the holdings of the Banco do Brasil, and it is even expected that funds may be ob-

very highly protected groups in the public and private sectors).

The evolution of real wages in the past two or three years can be adduced in support of the theory that self-financing on the part of enterprises increased in 1960-62. If the expansion of internal resources had been due only to the appropriation of real productivity gains by industrial firms, real wages should have remained constant. The fact that they decreased seems to confirm the impression that, in the absence of over-all price controls, it was possible for enterprises, in the prevailing climate of intensive inflation, to raise their prices more than commensurately with the rise in costs deriving from wage adjustments.

tained from the sale of some of the stocks in hand during the current year.

It was amid all these anomalies that anti-inflationary policy had to struggle along in 1961-63. Proposals for ways and means of cutting down public expenditure diminished, if successful, the primary source of creation of the monetary resources indispensable for the current financing of enterprises, with the ensuing general outcry against the shortage of credit. Attempts to amass resources for government programmes through the sale of medium-term securities or recourse to compulsory loans, also directly affected enterprises, not to mention the harm done to the powerful interests of the intermediate financing sector by the reduction of the funds available for its operations. A tax reform would have called for lengthy discussion, and political backing that was non-existent, especially in so unsettled a situation. Any endeavour to exercise stringent control in the wage area had to reckon with the increasingly well-organized power of the trade unions, and was consequently compelled to give way to their demands.

Nevertheless, something had to be done to check the inflationary exponential, which was sweeping the economy along in the direction of hyper-inflation. The problem of the intensification of inflation was important; no

Table 30

BRAZIL (RIO DE JANEIRO): MINIMUM REAL WAGE, 1952-63  
(Base year 1952 = 100 = 1 200 cruzeiros)

Month/year	Cost of living	Minimum nominal wage (cruzeiros)	Minimum real wage (cruzeiros)	Real per capita product
January, 1952 .....	100	100	100	100.0
January, 1954 .....	146	200	137	104.8
August, 1956 .....	222	316	142	107.4
January, 1959 .....	367	500	136	120.2
November, 1960 .....	644	800	121	124.2
October, 1961 .....	867	1 120	129	129.8
January, 1963 .....	1 454	1 750	120	—

SOURCE: *Desenvolvimento e Conjuntura*, February 1962. For January 1963, the cost-of-living index was computed on the basis of data given in the January 1964 issue of the same periodical.

one openly called that in question. Yet no sector was prepared to bear the brunt of halting the process. As a result, the idea of progressive stabilization, spread out over a period of time, met with increasing approval. Unfortunately, it failed to take into account the calculations based on the inflationary movement, by virtue of which all activities were geared in advance to a projected rate. This factor was to militate against the success of the most complete stabilization programme proposed during the years in question—the Three-Year Plan for 1963-65, which was based on the idea of progressive stabilization—rendering it largely ineffectual. These issues, however, can be better elucidated by means of a brief review of the successive stabilization systems.

It was in 1961—the year in which Janio Quadros came into power—that the stabilization problem became the order of the day for economic policy. In the preceding year, the approach to the inflationary problem had been similar to the typical attitude prevailing in the second half of the fifties, and an attempt had been made to restrain the operation of the chief propagation mechanisms by the adoption of measures which facilitated industrial

development while warding off obvious disequilibria. In 1960, the most important measure had consisted in an expansion of the internal supply of foreign exchange, with a view to the maintenance of the exchange rate. Although this procedure aggravated the balance-of-payments deficit,<sup>76</sup> it had the advantage of augmenting the resources of the Banco do Brasil.<sup>77</sup> Furthermore, wage pressures were controlled, adjustments being granted only at the end of the year. Since these measures were combined with a continuance of the public investment effort<sup>78</sup> and with an extremely liberal attitude to the private sector's demand for credit,<sup>79</sup> the general aspect

<sup>76</sup> In 1960 the balance-of-payments deficit reached \$430 million, the peak for that decade, with the exception of the figure for 1952.

<sup>77</sup> The resources in cruzeiros obtained as a counterpart to the exchange deficit amounted to about 60 per cent of the aggregate deficit on government operations and to 1.5 times as much as the total issues made in the year (according to SUMOC data).

<sup>78</sup> In real terms, the Federal Government's capital outlays were 50 per cent higher than in the preceding year.

<sup>79</sup> Private bank loans increased by 64 per cent, whereas those granted to the public by the Banco do Brasil rose by 122 per cent, in relation to the previous year.

of economic policy in 1960 was, with slight variations, much the same as it had been throughout the industrialization process of the fifties.

It is a well-known fact that such compromises cease to be practicable as the resulting imbalances are carried forward and accumulate, and the inflationary process is thereby intensified. Thus, in 1960, the advances made against expected foreign exchange income passed heavy exchange and financial burdens on to the following year. In 1961, to the traditional federal Treasury deficit (aggravated by the liberal salary adjustments conceded to personnel employed in public and semi-public services) was added a considerable drainage of monetary resources to cover the foreign exchange previously sold. The serious balance-of-payments deficit registered in 1960 threatened to recur in 1961, in default of a renegotiation of external debts, and to assume unmanageable proportions.<sup>80</sup> Moreover, the progressive over-valuation of the cruzeiro had by this time perceptibly begun to affect trade in Brazil's traditional export lines.

This situation gave the correction of disequilibria a priority unheard-of in Brazil's recent experience. The focal point of the measures then adopted lay in the re-modelling of the exchange system. Not only were the exchange rates adjusted and the subsidy accorded to preferential imports reduced, but also an attempt was made to draw upon external transactions for additional funds through the institution of prior import deposits and the introduction of a more efficient system of export surcharges.

Monetary policy would probably have had some chance of controlling the creation of means of payment in 1961, if it had not been for the serious political crisis that supervened in the second half of the year. This assumption is grounded on the course followed by fiscal policy, which succeeded in substantially reducing the aggregate deficit on federal government operations.<sup>81</sup> The available data show a contraction of the public sector's investment expenditure in comparison with the figure for the preceding year, a contributing factor having been the relatively favourable turn of events as regards the domestic coffee supply, which meant that the policy of withholding surpluses entailed less financial effort. Furthermore (partly by virtue of the exchange reform) tax revenue increased satisfactorily.

Despite these favourable conditions, the stabilization programme was a failure in the end, largely on account of the issues that the Banco do Brasil was obliged to make for the purposes of its exchange operations. As was previously pointed out, in the last year of the preceding administration this institution had contracted voluminous foreign exchange commitments which were due for liquidation in 1961, but the dollars owed now had to be purchased at a higher rate of exchange. Some idea of the monetary impact of these operations can be formed if it is borne in mind that they implied issues equivalent to those required to cover the total deficit of the federal public sector. Moreover, it would be a mistake to under-

<sup>80</sup> The deficit on current account reached \$288 million, but by virtue of substantial inflows of capital amounting to about \$332 million—the highest figure for the whole of the decade—a small balance-of-payments surplus was obtained.

<sup>81</sup> The aggregate deficit on the Federal Government's financial programme decreased by 30 per cent in relation to the preceding year.

estimated the effects of the political crisis generated by the resignation of President Quadros.

After the hopes of slowing down the inflationary process had been disappointed in 1961, a nebulous period ensued in which political conditions were unstable and ill-defined.<sup>82</sup> There is no point in analysing the timorous and ephemeral control programmes tried out at that time. All that is worth noting is that in the second half of the year a short-term programme was formulated with the aim of co-ordinating fiscal and monetary policy. Although it was short-lived, and its prospects and projections came to nothing, mainly because a thirteenth monthly wage was accorded to urban workers at the end of the year, the basic ideas it embodied were taken up again in the Three-Year Economic and Social Development Plan for 1963-65.

Brazil's previous experience had demonstrated the impossibility of applying methods of controlling inflation that would penalize economic activity. The Three Year Plan was based on this premise, and was characterized by an effort to formulate a stabilization programme consistent with the maintenance of past growth rates. As it implied first and foremost, a criticism of the usual short-term measures and a search for ways and means of reconciling them with long-term objectives, it tacitly called attention to the problems of integrating short and long-term measures in one and the same system.<sup>83</sup>

The Plan started from the following data: in recent years (1957-61), Brazil's average annual rate of development had been 7 per cent, but this rate had been accompanied by increasing instability, and provisional studies showed that the rate of inflation was likely to rise from 50 per cent in 1962 to 100 per cent in 1963, actually imperilling the growth rate of the product itself. In face of such a prospect, the Plan singled out the prime movers of disequilibrium—the external and the public sectors—and indicated the two basic objectives that should be pursued: (a) maintenance of the level of imports through the rescheduling of the external debt; and (b) acquisition of resources for the public sector by non-inflationary means. These objectives would in their turn be subordinated to a policy of safeguarding a high rate of investment. In the last analysis, the aim was to seek new ways of financing public expenditure, without sacrificing private investment. Setting aside wage policy and the evolution of the external sector, the restoration of stability would depend essentially upon the method of financing the Treasury deficit and upon the policy adopted in respect of loans to the private sector.

According to the projections presented in the Plan, the gross domestic product would increase by 7 per cent in 1963. On the other hand, the federal public sector would have to spend about 1,040,000 million cruzeiros (14 per cent of the product in question), which would mean a 34-per-cent expansion of the means of payment.

<sup>82</sup> In 1962 a parliamentary régime came into force in Brazil, and represented a formula to secure continuity in the country's political structure, along lines on which the nation had traditionally been organized.

<sup>83</sup> At the time of publication of the Plan, this same point was stressed in an address delivered by the Minister-Extraordinary for Planning: "The Government's Three-Year Plan represents an attempt to discover at least an approximate solution for this problem (i.e., that of *integration*), and the economists who read it will see that this, rather than its projection techniques or financing programme, is perhaps its most important aspect." (See *Congresso Brasileiro para a Definição das Reformas de Base*, vol. VII.)

On the basis of these two projections taken in conjunction, the resulting rate of inflation was estimated in the Plan at 25 per cent.

The salient feature common to the attempts to combat internal disequilibrium had been that at the beginning of every fiscal year the Government started out on the assumption that its expenditure would represent approximately 18 per cent of the gross domestic product; but by the end of the year this proportion dropped to 14 per cent. Thus, everything suggested that the Government's endeavour to increase its participation in the product had been frustrated by the rising trend of prices. Commensurately with the proposed increment in public expenditure, the inflationary process gathered speed, and the Government's share in the product reverted to 14 per cent.

In 1963, if the Government had spent the authorized amount, it would have laid out 1,500,000 million cruzeiros (18 per cent of the product). On the other hand, had it adopted an orthodox budget-balancing policy, it would have cut down its expenditure to 750,000 million. The lessons of past experience prompted it to reject both these alternatives. It planned expenditure only 14 per cent of the product, i.e., 1,000,000 million cruzeiros (at specific price levels).

If it programmed its expenditure with proper care, could the Government really attain this objective without detriment to the fulfilment of its investment responsibilities? In other words, could a saving of about 500,000 million cruzeiros be effected without unduly serious repercussions on public investment? Experience had shown that it could. In actual fact, not a year had gone by without the Government's shelving a number of projected items that it was unable to afford.

Concurrently, the Government likewise devoted study to a way of increasing the resources at its disposal. The tax reform submitted to Congress and adopted at the end of 1962 was an important step forward. The resultant increment in tax revenue did in fact improve the public sector's financial position. All these convergent measures, however, in addition to cuts of a different nature,<sup>84</sup> still left the Government with an estimated deficit of 300,000 million cruzeiros.

The Plan expressly established a group of measures which included the following:

- (a) Increase of the tax burden;
- (b) Reduction of the public expenditure programmed;
- (c) Tapping of private-sector resources in the capital market;
- (d) Mobilization of monetary resources.<sup>85</sup>

In the budget projection formulated in the Plan, income in 1963 was estimated at 737,300 million cruzeiros and expenditure at 1,512,200 million,<sup>86</sup> giving a potential deficit of 774,900 million. With the savings and advances programmed, this deficit dwindled to 300,000

<sup>84</sup> Basically, cuts in transfer expenditure. Further reference will be made to this subject at a later stage.

<sup>85</sup> According to the guiding principles implicit in the Plan, stabilization policy would be worked out for short periods at a time. The Plan mapped out the path to be followed during 1963; in subsequent years, new directives would be issued in line with the development of the process.

<sup>86</sup> The number of personnel employed in the public administration was expected to increase, as from April 1963, by about 40 per cent.

million. Stress must be laid on the significance of the reductions in wheat and petroleum subsidies effected through the adjustment of the import exchange rate. In respect of wheat alone, the maintenance of the previous policy would have implied additional Treasury outlays to an amount of 70,000 million cruzeiros.

The financing of the programmed deficit was to be covered by means of deposits against sales of foreign exchange (140,000 million cruzeiros) and compulsory deposits by the commercial banks to order of SUMOC (100,000 million cruzeiros), convertible into Treasury bills.

As regards the monetary policy adopted, the Plan was based on the above-mentioned assumption that the expenditure programmed for the federal public sector would continue to represent 14 per cent of the gross domestic product, as in recent fiscal years. Thus, on the basis of coefficients taken from the monetary evolution series, the projected expansion of the means of payment would amount to 34 per cent, and the rise in the overall price level to 25 per cent.

The programming of public expenditure thus guaranteed the availability of a certain amount of resources for the private sector. The maintenance of the level of private investment would be secured by means of an expansion of the loans granted to the sector by the banking system, at a rate similar to that projected for the growth of the product. The private banks would have to be in a position to play their part in this investment financing. To that end, a programme was carefully drawn up, embodying the policies to be pursued in respect of rediscounting and compulsory deposits to order of SUMOC.

The dominant characteristics of the external sector problem was identified in the Plan as the relative decline in the capacity to import.<sup>87</sup> The heavy pressure on this capacity deriving from the industrial development of the fifties had, on the other hand, led to Brazilian economy to open up new roads to progress, by way of import substitution. Thriving as this process was, the projections formulated in the Plan showed that it could only continue at the cost of substantial balance-of-payments deficits. The fact that external financial commitments nearly all had to be met over the short and medium terms, and the deterioration of the terms of trade, would seem to have been the chief causes of the imbalance.

The analysis of balance-of-payments trends revealed that on trade transactions credit balances were registered. But commitments under the head of services (investment income, freight, insurance, etc.) weighted the scales on the other side, so that balances on current account were invariably negative. The addition of the total debit entries on capital account (amortization of loans) projected for the three-year period gave an aggregate deficit of \$1,830 million.

Accordingly, the Plan established two basic objectives for the external sector: (a) maintenance of the imports required to keep up the rate of economic growth, without recourse to additional external borrowing; and (b)

<sup>87</sup> In the periodical *Conjuntura Econômica*, by means of a series of index figures representative of the evolution of the capacity to import in recent years, the Getulio Vargas Foundation shows that in absolute terms it increased slowly during the period. But the statement made above still holds good; the growth rate of the product was far higher than that of the capacity to import.

study of the possibilities of rescheduling the debts previously contracted. It is important to note that if more liberal interest and amortization terms were secured, the resultant decrease in the outstanding liabilities projected for the period would mean a relatively significant reduction of the deficits.

Import projections covered the evolution of the import substitution process and the economy's probable demand. In this connexion no special programme for the curtailment of imports was formulated; and the import structure was broken down not by areas, but by commodities (petroleum, wheat, capital goods, etc.). As these projections were not based on any programme of restrictions, they allowed for a reasonable safety margin, thereby giving the authorities more room to manoeuvre in face of external fluctuations beyond their control.

The last of the proposed measures were those relating to exchange policy. Given the nature of the balance-of-payments deficit, a sharp and sudden devaluation of the currency was not an appropriate means of correcting the imbalance. Moreover, according to the Plan, the level of the existing rates of exchange was satisfactory. As prices were expected to rise by 25 per cent in 1963, exchange rates would have to be adjusted in such a way that, in real terms, their level would remain the same. As far as possible, unrealistically low rates such as had been registered in the past would have to be avoided, and the list of commodities included in the "special category" increased.

To sum up, the Plan, in relation to certain projected rates of inflation, set limits to public income and expenditure and to financial and banking operations which were calculated to keep the creation of means of payment at a level compatible with the estimated rise in prices. Its projections seem to have been somewhat optimistic, and to have underestimated the repercussions of the abundant money supply created in the last quarter of 1962. Similarly, its execution was hampered by the discrepancy between the rate of inflation that entrepreneurs had expected and on which their monetary operations and calculations were based, and the rate projected in the Plan. When the time came to implement it, complaints of the shortage of credit were to be heard on every hand. It often happens that when control measures are applied their initial impact is more severe than was previously intended; and such was the case in Brazil. For the first quarter of 1963, according to the provisions of the Three-Year Plan, the means of payment were to be expanded by 25,100 million cruzeiros, with a view to partly offsetting the effects of the primary issue put out in the preceding quarter on account of the concession of an extra monthly wage in December 1962. But in actual fact, the stringency of the initial measures of monetary policy was exemplified in the nullification of fiat money to an amount of over 16,000 million cruzeiros—approximately three times as much as the withdrawal contemplated in the Plan—and the means of payment expanded by only 3,700 million. Needless to say, these practices aroused violent criticism, and by the second quarter of 1963, with the relaxation of monetary policy, the means of payment increased by 179,400 million cruzeiros, as against the projected increment of 74,100 million. The Three-Year Plan was thus dealt a fatal blow. Moreover, wage and salary increases far exceeded the programmed 40 per cent and

thereabouts; civil and military employees in the public sector, to begin with, were granted percentage increments approximately twice as great.

Thus, in the list of transitory schemes for combating inflation, the Three-Year Plan<sup>88</sup> figures as a heroic attempt to reconcile the two basic aims referred to above—that of safeguarding the rate of growth and that of mitigating inflation—in the midst of a turmoil of events which increasingly tended to elude any sort of control that economic policy could exercise.

## 2. DEVELOPMENT POLICY: THE QUEST FOR NEW AVENUES OF ECONOMIC EXPANSION

The procession of stabilization programmes witnessed in the three-year period under review is indicative of the changed attitude of the authorities towards the inflation problem, and reflects one of the fundamental differences between economic policy in 1961-63 and the approach adopted in the Target Plan.

However the aims of the Target Plan continued to influence the development policy pursued in more recent years. Governmental investment capacity was still concentrated in the twin fields of energy and transport. The private sector, despite the economic recession in 1963 and the climate of political instability, kept up its intensive investment in the sectors producing basic inputs and capital goods.

It is not surprising that the completion of the industrial structure should have retained importance as a goal of endeavour. With respect to investment in basic social capital, especially transport facilities and power, it should be borne in mind that the Brazilian economy is organized with a view to the continuity of such programmes. The existing capital goods industry is geared to the production of the pertinent equipment; methods of financing are designed to support programmes of the type in question; and there is a whole structure of interests directly bound up with investment in the energy and transport sectors. In the past, Brazil has displayed a remarkable capacity for insulating infrastructure programmes from the vicissitudes of political life.

In research into the motives underlying the maintenance of such investment, emphasis is laid on awareness of the essential function of such programmes in providing the base for industrial development. While this consideration certainly carried weight, a significant protective role must also be attributable to the pressures exerted by the manufacturers of capital goods. In this context, it must be reiterated that important capital goods industries looked to the State as the chief and, in many cases, the sole purchaser of their products. This situation facilitated the institution and organization of systems for ensuring the continuity of infrastructure programmes (allocation of funds for specific purposes). Their direct vulnerability to fluctuations in public investment made manufacturers of capital goods acutely sensitive to cuts in budget appropriations.<sup>89</sup> Moreover,

<sup>88</sup> The Three-Year Plan was virtually abandoned in May 1963, with the replacement of the Cabinet that had put it forward.

<sup>89</sup> Highway programmes constitute an enlightening case in point. Low-priority roads were constructed, mainly because road-building equipment was concentrated in a particular area. Another good example is to be found in the ship-building industry.

the need to counteract the persistent external bottleneck<sup>90</sup> tied up a substantial proportion of the Government's capacity to invest in import substitution industries, particularly steel-making and petroleum.

The system of earmarking funds for infrastructure programmes was consolidated and expanded. Of outstanding importance were the reorganization of the Federal Electrification Fund (Fundo Federal de Eletrificação) and the constitution of a railway investment fund, in 1962. The direction in which investment was channelled in the years in question is attested by a study of the long-term objectives postulated in the Three-Year Plan, which assembled sectoral projects and programmes and thus gave expression to the aspirations and potentialities of the national economy as a whole. The changes contemplated in the composition of fixed investment synthesize the aims pursued in respect of completing the structure of industry (see table 31). The share of capital goods in total fixed investment was to increase, and the investment effort in respect of transport and energy was to be greater in relative terms. Evidence of the vertical character of the industrialization process is afforded by the proposal that the sectors manufacturing capital goods and basic inputs should come to constitute a bigger proportion of the entire transforming industry.

Table 31

BRAZIL: PERCENTAGE BREAK-DOWN OF FIXED INVESTMENT

Sector	1949	1958	1963-65
Equipment .....	42.2	51.0	54.4
Agriculture .....	3.4	4.9	5.6
Transforming industries .....	9.8	12.1	18.5
Electric power .....	4.1	5.6	6.8
Transport <sup>a</sup> .....	19.3	22.4	19.2
Services .....	5.6	6.0	4.3
Construction .....	57.8	49.0	45.5
Total fixed investment .....	100.0	100.0	100.0

SOURCE: *Plano Trienal de Desenvolvimento Econômico e Social 1963-65*.

<sup>a</sup> Equipment only.

While vertical industrialization represented a natural prolongation of the trend followed by the import substitution process, awareness of the future needs that would derive from regional, sectoral and social disparities led to the establishment of another group of objectives. Operating from various angles, the demonstration-effect of the differentiation brought about by structural changes helped to speed up the partial gearing of the economy to other courses of action, parallel to the industrialization effort. This is obvious in a number of different ways. On a modest but increasing scale, social, regional and sectoral claims set up new economic targets.

<sup>90</sup> Although the conversion of many of its short-term commitments into long-term operations was successfully negotiated, Brazil's external debt increased uninterruptedly during the three years under review, soaring from \$2,664 million in 1960 to \$3,170 million in 1963. By means of the negotiations referred to, the short-term debt was reduced from \$384 million to \$345 million in the course of the period.

One of the typical features of the development policy pursued in the three years under discussion was what might be termed the attempt to launch a policy of horizontal development. This new interest, manifested in the creation of the Superintendencia de Desenvolvimento do Nordeste (SUDENE) and in a number of measures relating to the agricultural sector, not only represented a response to the political demands springing from cognizance of structural disequilibria which stood out yet more plainly in contrast with the growth of the metropolitan areas of the Centro-Sul region, but also contributed to the opening-up of new prospects for the internal savings and investment process.

At the end of 1959 the regional development policy followed in the Nordeste had been recast in a new mould. Experience had shown that the mere combating of climatic vicissitudes, through hydraulic engineering projects and the construction of a transport network, was no answer to the real crux of the region's problem: the existence of a pre-eminently primary system characterized by low productivity and the concentration of income in a few hands. Moreover, there were so many federal organs operating in the area that some higher authority was needed to co-ordinate their activities. SUDENE was to formulate a policy with the aim of remodelling the economic structure of the Nordeste, and was to become the centre for the co-ordination of government action in the area.

Some aspects of its experience are worth studying. It drew up master plans (Planos Directores) which, in essence, envisaged two general objectives. The first related to the establishment of an industrial base for the area. To that end, SUDENE was not only to play a direct part in the formation of basic social capital in the area or to supplement the action of other federal organs concerned with this task, but was also to accord preferential treatment, through a series of tax and exchange provisions, to private investment in the Nordeste. The second comprised agrarian reforms and the improvement of crop yields. In this connexion, a body of projects was presented, whose content ranged from a new irrigation policy for dry-soil areas, rational use of newly-incorporated farm land and introduction of subsistence farming on land where sugar had been grown as a single export crop, to the intensified application of traditional agricultural development practices. During the first three years of its existence, SUDENE's activities met with varying degrees of success, although on the whole better results were obtained in relation to the first objective than where the conversion of the primary economy was concerned. Besides establishing itself on a sound footing as an instrument of action, inasmuch as it set up its own teams of qualified technical experts in addition to co-ordinating international assistance programmes and the resources of the other federal agencies operating in the area, it also managed to exert some influence on the investment programmes of the governments of the Nordeste states. In the course of its initial years of work, it has amassed a valuable stock of technical information and experience which will enable it to increase the efficacy of its action. These are early days; but even so, it is impossible to overlook the qualitative change in the regional development policy adopted in the last two or three years, which represents, in Brazil's circumstances, the potential

opening-up of a line of action parallel to the former direction of economic development.<sup>91</sup>

From another standpoint, the proliferation of measures relating to the agricultural sector is indicative of economic policy's attempts to seek new approaches in recent years. In the first place, an effort was made to expand agricultural development practices. Of importance in this connexion was the remodelling of federal agencies connected with the agricultural sector and the guaranteeing of financial continuity for development programmes. An attempt was also made, through a modification of the rural credit régime, the institution of a minimum-price system and the establishment of a network of storage facilities, to ensure better conditions for the financing of agricultural production. In view of the country's industrial development, resale of agricultural equipment was encouraged and facilitated. Among specific programmes, special mention must be made of one for the rationalization of coffee-growing, through which former coffee-growing areas are being gradually turned over to diversified farming with high rates of productivity.<sup>92</sup> Plenty of funds are available for this programme, deriving from taxation on coffee exports. Alongside these activities directly linked to the improvement of agricultural productivity, certain measures were adopted in connexion with income distribution

<sup>91</sup> The ECLA/BNDE Centre is carrying out an over-all study on the development of planning machinery in Brazil, which includes a detailed analysis of SUDENE's experience.

<sup>92</sup> The master plan for the rationalization of coffee-growing contemplates the reorganization of this activity on the basis of a 3-point programme:

(a) Eradication of 2,000 million anti-economic coffee trees and planting of 500 million new trees on rational bases;

(b) Establishment of individual production quotas and renewal of the remaining coffee plantations; and

(c) Diversification of crops on land released, and development of industrial processing of rural products.

By 30 November 1963, 676 million old trees had been eradicated and 3.5 million new ones planted. The 491,000 hectares released had been used for the following diversified crops, according to data furnished by the Banco do Brasil: pasture, 47 per cent; maize, 20.9 per cent; rice, 7.7 per cent; beans, 4.8 per cent; sugar-cane, 2.7 per cent; other crops, 12.2 per cent. Only 0.6 per cent of the area freed had been replanted with coffee. As regards the industrial processing of agricultural products, emphasis was laid on the installation of sugar mills, the expansion of production being estimated at over 6 million sacks. Lastly, by the date mentioned a few small credits for rural electrification projects had been approved.

## VII. DEFICIENCIES AND REFORM OF TARGET PLAN INSTRUMENTS

The hiatuses in the machinery available—to which attention was drawn in the preceding section—aggravated as they were by the pragmatism of the Target Plan, naturally tended to become increasingly manifest as the possibilities of the juridical framework inherited from earlier decades were exhausted. From the sociological standpoint, a new institutional structure had been fashioned, with the State at the service of development, but the corresponding changes had not been introduced at the legal level. In practice this "development State" was established almost outside the letter of the law.

There has been plenty of evidence of this anomaly in recent years. One of the salient features of the three-

in the sector. Outstanding among these was the extension of labour legislation to cover agricultural workers. With regard to the reform of the land tenure system, little progress was made in the years under review.

Still in relation to the public investment objectives proposed, the new interest in educational programmes should be mentioned. The proportional importance of education programmes has altered in the last two or three years, and so has the line followed by Brazil's educational policy.<sup>93</sup>

Lastly, reference must be made to the concern lately shown for the development of the country's export trade, an indication of which is to be found in the 1961 exchange reform. This considerably raised the level of export earnings and safeguarded it against fluctuations in the exchange rate. An attempt was made to expand trade relations, with manifest repercussions on Brazil's foreign policy. The financing of exports of industrial products was facilitated, draw-back regulations were established and, in addition, export formalities were simplified.

One last reminder of a warning already given: the incipient movement towards diversification observable in development policy during the past three years should not be regarded as the outcome of a deliberate decision adopted in the light of a searching diagnosis of the phase through which the economy was passing. On the contrary, they were prompted by all sorts of limited motivations, unrelated to any over-all definition of Brazil's development and, up to a point, marginal to the major issues of economic policy. The process of partly incorporating the guiding principles they implied into the main body of development policy began so recently that it is only in its initial stage. But—and herein lies the danger previously referred to—the effort made to offer an organized presentation of the most important of the pertinent measures may suggest the existence of a clear-sighted awareness of objectives, and a measure of rationality in the application of the measures in question, which were actually far beyond the economy's reach.

<sup>93</sup> The proportion of the gross domestic product represented by expenditure on education and public health programmes is slowly increasing. According to the education plans formulated at the end of 1963, it should rise from the 2.16 per cent registered in 1958-60 to 2.77 per cent in 1963-65.

year period under review was the emergence of innumerable incompatibilities between the legal potential of the 1946 Constitution and the needs of the much more complex national society that had been gradually built up during the past fifteen years. Some of these incompatibilities have recently been reconciled. Cases in point are afforded by the education act which has given the country a new educational system; the extension of labour legislation to rural workers; the amendments to the Constitution which have strengthened the financial position of the municipalities; and so forth. But some still subsist today. For instance, Congress has before it over 400 draft land reform bills. As regards the subject of most

immediate interest here—reform of Target Plan instruments—although considerable progress was made in the three-year period under review, the effort to establish adequate machinery is still far from completion. Unquestionably, however, the last two or three years, unlike those which preceded them, have been prolific in measures of this kind. What then, are the factors underlying the existing sense of urgency? The reply to this question will bring to light some of the motives and needs that have aroused an interest in a reform of Target Plan instruments which is unprecedented in the history of Brazil.

It has already been shown that in the execution of the Target Plan no priority was given to redefining the functions of the State or to over-hauling and establishing the instruments of economic policy in accordance with an appropriate and efficient plan. The new phase that has been ushered in with the sixties is marked by the following features, deriving from the trends previously followed, and accounting for the urgency that the problem has acquired:

(1) The priority accorded to short-term anti-inflationary policy, in conjunction with the fact that monetary, tax and exchange instruments are not designed to serve its purposes since, as has been pointed out, in the recent past they fulfilled functions ancillary to the industrialization process;

(2) The need for the economy to acquire instruments with which to explore alternative possibilities for its long-term evolution in accordance with a new development model. It is this requirement that dictates the efforts made to create, improve or adjust instruments for primary-sector reforms in the spheres of agrarian policy and agricultural development, regional development institutions and incentives to promote the dynamic growth of the problem areas, and new foreign trade practices and agencies;

(3) The radical change in the structure of the economy. The emergence of a capital goods industry and the use of more capital-intensive production and marketing processes have brought into being new financial institutions and a capital market, for whose organization and support the State should have more reliable instruments at its disposal;

(4) The external sector's loss of its strategic importance as the essential channel for the economy's savings and investment process. The situation formerly prevailing allowed the State, through the manipulation of rough instruments of economic policy applied to real and nominal transactions directly connected with the external sector, to keep all the dynamic forces of the economy under its control. In the new circumstances, the economic impact of the machinery that was most operative and decisive in the past has become restricted in scope and depth. A typical case is that of exchange instruments, the purpose of whose application was modified under the 1961 reform; moreover—and this is one of the most interesting general points in the present connexion—the principal instruments of economic policy are no longer foreign exchange expedients, but tax and financing measures. In any event, it should be noted that the rate of obsolescence of certain instruments (accelerated by the emergence of new structures of vested interests) has outstripped that of the creation of new media of action. The resulting partial disablement of the State, in the

economy's present phase of transition, enhances the urgency of the need to establish new machinery. This imperative necessity is reflected in the current proposals for reforms to strengthen Brazil's tax system and financial and monetary instruments, intrinsically more efficient as means of controlling the key areas of the domestic savings and investment process;

(5) The fact that in the past, in the natural course of events rather than as the outcome of deliberate planning, certain provisionally-established instruments (sectoral programmes, foreign exchange budget, etc.) acquired a measure of consistency and cohesion, and now, because they constitute the groundwork for an incipient planning system, must be properly organized and taken on to more advanced stages. Moreover, their very existence exerts pressure on the machinery available in other fields, which has undergone no change. This not only means that the planning system must be built up at higher levels, so as to increase the economic efficiency of its action through co-ordination with other areas of government policy, but also brings into the limelight the instruments that were shelved during the execution of the Target Plan, pointing up their inconsistent and piecemeal character;

(6) Lastly, the necessity of thoroughly overhauling the public sector's administrative machinery, even if only for the purposes of production and the provision of traditional services, since it has been rendered so unwieldy by the marginal adjuncts to the administrative structure inherited from the coffee economy that unless it is remodelled it is likely to break down altogether.

In the last few years, the changes in the structure and problems of the economy have been reflected in significant modifications of the traditional machinery of economic policy. Mention must be made, first and foremost, of the atrophy of some of the functions of exchange instruments and the stimulation of others. Secondly, the role of other instruments is becoming increasingly important.

In earlier pages stress was laid upon the outstanding part played by exchange instruments during the fifties. The differential treatment of exchange operations was undoubtedly the most important of the instruments handled during the implementation of industrialization policy. In view of the strategic importance of external relations for the economy, the application of differential exchange rates enabled the Government, through the selective control of imports, to grant subsidies to imports of capital goods and basic inputs. Similarly, their manipulation facilitated the attraction of external savings, serving as a means of guiding and influencing the investment process and channelling resources towards the priority branches of industry.

In 1961, a series of measures metamorphosed Brazil's exchange system, adapting it to new functions. In broad outline, the 1961 reform eliminated the granting of subsidies through the foreign exchange régime, established a single exchange rate and fused the separate markets formerly existing, instituting more automatic procedures for the determination of the rate of exchange.

In short, it greatly limited the possibility of differential treatment through the manipulation of exchange rates.

The process of reforming Brazil's exchange system was hastened by Directive No. 204 (March 1961). As

from the date of its promulgation, all imports and exports were effected through one market with a single exchange rate, the only exceptions being imports of wheat, petroleum and petroleum products, paper and printed matter, fertilizers, insecticides and goods with no domestically-produced equivalents, as well as exports of coffee and cacao, which, however, were negotiated through the aforesaid market as from the issue of Directive No. 208 in June of the same year.

As a result of these changes, the former system of government agios and bonuses was abolished, and so was the regulation by which importers had formerly been required to pay in advance the equivalent in cruzeiros of 90 per cent of their external purchases. To offset the interruption of these monetary flows, Directive No. 205 (May 1961) provided that the foreign exchange earned from coffee exports, although negotiated through the Banco do Brasil at the free market exchange rate, would be subject to a "tax" contribution of \$22 per bag exported, the average value of this export unit having been \$41.8 for the year as a whole. In Directive No. 217 (October 1961), exactly the same regulations were established for exports of cacao and cocoa products. Of the foreign exchange accruing from the sale of these commodities, 15 per cent had to be surrendered to the Treasury, in dollars. In principle, the revenue thus obtained was intended to defray the costs of the policy of maintaining world prices for the commodities concerned, as well as the cost of improving the methods of cultivation and of partly replacing these crops by others if and when necessary.

The establishment of withdrawal quotas was tantamount to the formalization of differential taxation on exports, a measure absolutely essential for the unification of the exchange rate formation process. In the past, the impossibility of taxing imports for revenue purposes, on constitutional grounds, had given rise to the establishment of multiple exchange rates applicable to imported goods. The wide disparities in the productivity of Brazil's various export activities makes it possible to apply a surplus retention policy, which is financed with resources earned by the high-productivity export sector and entails the conversion of foreign exchange at different levels, according to the nature of the export commodity concerned.

Again, by virtue of Directive No. 204 the year-end financial disequilibrium was less secure than had been expected; to make this possible, a provision had been included which, although its only object was to solve the Government's short-term financial problem, combined with the monetary resources obtained by other means to control the potential deficit of the financial year. The measure used to obtain internal financing resources was the issue of import drafts by the Banco do Brasil. The source of these was constituted by the prior deposits which importers had to make in order to secure the right to buy foreign exchange, and at first they were issued for the cruzeiro value of the corresponding contract negotiated by the importers, for a period of 150 days and at an annual interest rate of 6 per cent.

Directive No. 204 retained the previous provisions for the direct control of imports of luxury consumer goods. Instead of the former higher exchange rate, proper to a market with a scanty supply of foreign exchange under the direct control of the Government, it established the procedure consisting in the prior sale of import permits,

whose issue reflected the direct control of the supply of foreign exchange for imports of goods of this type.

The accumulation of heavy external commitments; the unfavourable trend of exports, which were further discouraged by the low level of exchange rates; the expansionist trend of subsidized imports, were all factors which at the beginning of the sixties combined to create a situation such that measures had to be taken. An attempt was therefore made not only to curb, through the adjustment of the exchange rate, the trend towards excessive expansion of imports of certain subsidized items (wheat, petroleum and petroleum products, etc.) but also to consider the development of exports as being of primary importance for a satisfactory evolution of the economy, calculated to relieve the external bottleneck. Moreover, the exchange policy pursued under the Target Plan had had the effect of reducing the resources accruing from external transactions, directly because the subsidies granted reduced the margin of profit on the auctioning of foreign exchange, and indirectly because the basis of calculation of the customs tariff and the fuel tax was kept unduly low by the over-valuation of the exchange rate. For example, the low cost of liquid fuels had had a detrimental effect on the financial situation of PETROBRAS, which made an adjustment of its income levels essential.

These factors were directly behind the need for an exchange reform, but it must be pointed out that at the same time such a reform coincided with other interests. For example, it would establish a more efficient market reserve for the domestic capital goods industry, by raising the relative prices of the goods in question. In the not far distant past, these effects by raising the cost of investment, would have been unfavourable to a process of industrialization in need of encouragement, but they were now particularly attractive to an economy where a significant capital goods industry already existed. Unquestionably, the level of activity and rate of growth of this branch of industry partly depended upon the existence of relative prices favourable to the competitive position of domestically-produced items, and on the internal market reserve which the reform would partially secure.

It, on the one hand, the exchange reform served such important interests, to which must be added those of the export sector—certainly by no means negligible—it did not, on the other hand, affect forces that might have been capable of standing in its way. The limited share of consumer goods in the range of imports meant that the domestic budget was not vulnerable to the exchange adjustment (provided that control was exerted over certain marginal exports which might affect internal supplies). Some industries, especially those using subsidized inputs, would have to make adjustments in their costs, but in most cases these would not be very great and could easily be transferred to the consumer by means of a price increase. It would tend to raise the cost of some investments; but as far as new projects were concerned, this would not constitute a disincentive to entrepreneurs, provided they were guaranteed access to sufficient financing. The only sphere in which the exchange reform would have directly detrimental effects was that of external financing already negotiated, which would have to be settled at a higher rate of exchange. But in face of such potent favourable factors, the sector losing by this was powerless to prevent the reform.

A more exact picture must be given of the repercussions of this metamorphosis of the exchange system. It was characterized by the abolition of subsidies and the establishment of a single market in which the exchange rate would be more freely determined. But in these circumstances, the exchange instrument, deprived of its power to channel resources, ceased to be an important means of furthering the industrialization process and exerting selective control of imports. The problem of creating other instruments to carry out these tasks thus came to the fore, and the need for tax and monetary reforms became more pressing.

It has already been pointed out that one of the important factors which helped to bring about the exchange reform was the need to improve the position of the Treasury. The exchange adjustment at once made it possible to obtain more revenue from import duties<sup>94</sup> besides increasing the income of the state petroleum enterprise. It was of special importance for highway programmes, which were subject to interruption because their financial resources were derived from the tax on liquid fuels.<sup>95</sup>

But other expedients implicit in the exchange reform directly strengthened public finance. The first consisted in the replacement of the former system of *agios* and bonuses whereby financial support was accorded to coffee policy by a more orderly system of tapping resources through a tax (retention tax) payable in dollars on exports of coffee and cacao. This export duty constituted a fiscal instrument to stabilize the excessive fluctuations previously shown by the balances resulting from exchange surcharges. The second procedure was the institution of prior import deposits. Thanks to this device, which was gradually modified in the course of the period, the Banco do Brasil's holdings were augmented by non-monetary resources.

The prior deposits instituted under Directive No. 204 were used, as from the date of issue of Directive No. 208 (June 1961), to discriminate in favour of sectors and products. Exemption from this requirement was granted to certain imports from countries members of Latin American Free-Trade Association (ALALC), namely: machinery and capital goods to be used for installing an industrial unit or completing one already in existence; imports directly affected by public bodies; wheat, petroleum and petroleum products, paper and printed matter, fertilizers, insecticides and goods with no domestically-produced equivalent. The number of items exempt from the prior deposit requirement was subsequently reduced.

Again, the manipulation of prior deposits provided a means of meeting certain immediate financial needs of the Banco do Brasil, as well as of indirectly controlling the rate of imports and of financial remittances abroad. For this reason, the system has undergone frequent modification since it was instituted, the amount of the prior deposits being raised or lowered according to the ex-

<sup>94</sup> Import duties are calculated on an *ad valorem* basis, so that for fiscal purposes a cruzeiro/dollar conversion rate is needed, which is known as the fiscal dollar. Quotations are fixed by the administrative authorities in relation to the market exchange. Consequently, with the adjustment of the exchange rate the cruzeiro yield of this rate of conversion rose, thereby guaranteeing more income for the public coffers.

<sup>95</sup> Fuels are also taxed on an *ad valorem* basis, and the internal price structure of petroleum products is in direct proportion to the level of the exchange rate.

gencies of the internal and external situation. For some time the Banco do Brasil drafts to which these deposits are linked were withdrawn from the market.

Furthermore, in adjusting the exchange rates in such a way that the process of forming them could more easily keep pace with the rate of inflation, the exchange reform took into account the need to encourage the expansion of exports. Moreover, the weapons of defence of domestic industry were completed by the establishment of protectionist barriers for the producers of capital goods.

The process of reform of the exchange system cannot be said to have pursued an undeviating course from the standpoint of its adaptation to the new functions. It often happened, during the three-year period under consideration, that political disturbances led to the application of direct foreign exchange controls. Despite these interruptions, however, a glance at the three-year period as a whole reveals the consolidation of the trends suggested by the 1961 exchange reform. The new line of policy continued, substantial resources being secured for the public sector by means of exchange provisions; the policy of encouraging exports was maintained; and the defence mechanism of the domestic capital goods industry was completed by the change of approach in respect of foreign capital.

In 1962 a law was passed and provisional regulations established both for remittances abroad made by foreign enterprises operating in Brazil and for the inflow of external savings, with the result that some aspects of the extremely favourable policy of the preceding period disappeared.

In this context, it is important to bear in mind the difference between the influence of "payments to factors of production abroad" on national income and their possible effects on the balance of payments, which are two very different things. With regard to the former, the fact is that in the post-war period, up to 1961, such payments had only represented less than 1 per cent of the gross domestic product.<sup>96</sup> If, on the other hand, the problem is viewed from the balance-of-payments angle, it will be seen, for example, that in 1955-61 they accounted for approximately 16 per cent of total exports earnings. Although a proper distinction, the fact remains that for one reason or another the problem became one of the burning questions of the day.

Directives Nos. 231 and 232, which followed the passing of the above-mentioned law, established provisional regulations for remittances of capital abroad. Their provisions were definitely specified at the beginning of 1964, and stipulated that annual payments under the head of profits were not to exceed 10 per cent of the value of the registered capital. The annual quota for amortization of capital investment was not to exceed 20 per cent of its registered value.

It seems needless to add further details in relation to this legislation, as it was repealed in mid-1964.

The sweeping changes undergone by the exchange system in recent years modified the structure of the whole set of instruments of economic policy. The limitations placed on certain functions of the exchange instruments had its counterpart in the changes introduced in other categories of instruments.

<sup>96</sup> See *The economic development of Latin America in the post-war period*, op. cit.

Initially as a result of the concern aroused by the intensification of the inflationary process, and the need to obtain non-monetary resources to finance government expenditure, a series of financial provisions were gradually added during the past four years to the panel of instruments of economic policy. Several of them were intended to permit or expand public credit operations, to which virtually no recourse had been had in the fifties as a means of financing government expenditure. The various procedures recently applied can be classified in two groups. The first consists of medium-term operations for purposes not previously specified, and includes, the various kinds of drafts (Treasury, export and import drafts). The other expedient consisted in the launching of long-term loan securities earmarked for specific uses. In most instances, such operations were based on tax surcharges.

Almost all these credit operations were of a compulsory nature, Treasury drafts being the sole exception. Importers, exporters, income-tax payers and consumers of electric power were alike compelled to underwrite securities in accordance with the amounts represented by the operations in which they participated. This element of coercion is explained by the high rate of inflation and the co-institutional restriction of the interest rate to 1 per cent a month, factors which meant that government securities offered little inducement on the financial market.

It is worth while to examine in broad outline the main types of credit operations recently applied by the Federal Government.

To begin with, a new way of using the old Treasury drafts may be noted. This type of medium-term security, which had previously been used to counteract seasonal fluctuations in tax revenue, became more widely used as a financial instrument. In 1956, the commercial banks were authorized to hold, in securities of this type, up to 50 per cent of the compulsory deposits surrendered to the monetary authorities. The result was a considerable increase in the sale of these drafts. In addition, the Federal Government began to use them for the purpose of granting loans to the administrative authorities of the states and municipalities; issues made for this purpose cannot be used by commercial banks for their transfers of funds to SUMOC.

At the end of 1959, when the exchange rate applicable to exports rose considerably, a new type of medium-term draft—the export draft—was instituted. The exporter received part of the value of the foreign exchange involved in bills of exchange for a period of 180 days—at an annual interest rate of 6 per cent. In 1961, in order to encourage exports, this partial retention was abolished, and the bills of exchange gradually died out.

In that same year, along with the exchange reform, prior import deposits were instituted. Except during an interval of nearly a year, importers received Banco do Brasil drafts to the amount of the deposits, for a period of six months. These import drafts were very popular on the capital market, where they were negotiated at a high discount to allow for the rate of inflation and constituted the chief instrument of medium-term financing.

As previously pointed out, government credit operations are of a compulsory nature, because of the public sector's incapacity to offer the holders of securities satisfactory returns. At the end of 1963 an attempt was made to overcome this obstacle by authorizing the Banco do

Brasil to sell its own issues of bills of exchange. They were to be transferred to borrowers who wished to overstep the limits of their credit in the official Bank. But this measure was not maintained, in view of the apprehension shown by investment, credit and financing companies as to its implications for the volume of their operations on the capital market.

Concurrently with these medium-term operations based on tax surcharges, the Government launched three long-term credit operations. The first was carried out in 1962; it consisted in the approval, conjointly with salary adjustments for public officials, of a compulsory loan intended to cover this increased expenditure, which was to be subscribed by income tax payers. Also in 1962, in addition to the strengthening of the funds for the electrification programme by means of the pertinent tax reform, another compulsory operation was inaugurated, this time among the consumers of electric power. Lastly, in 1963 a new loan was issued, on the basis of income tax surcharges, for the purpose of constituting the National Investment Fund. This financial provision, which augmented BNDE's resources, was to be especially earmarked for underwriting the increase in the capital of state enterprises.

The accumulation of such provisions, the aim of which was to increase the State's capacity to tap internal savings, was one of the main features of the measures being taken to improve the existing machinery. It was previously pointed out that, during the Target Plan period, the manipulation of the exchange rate was the main instrument used to encourage and channel investment. As regards other forms of taxation, the paramount concern was how much revenue they would yield. An endeavour was made to build up a tax system which would be capable of keeping pace with the inflationary process and at the same time of adapting itself to the rapid structural changes, while incidentally increasing the Federal Government's share of the increments in the product. The changes in the tax system were dictated by this twofold consideration, with the result that the tax burden increased during the fifties. With the series of modifications of the tax system that followed, the most important taxes came to be established on an *ad valorem* basis, or, by virtue of frequent adjustments of their specific scales, maintained the same real ratios; at the same time the tax base and average rate of incidence were increased. In short, from the fiscal standpoint, the federal tax system steadily improved during the last decade.

Nevertheless, these tax changes were carried out without an over-all conception of the tax system and of its functions as an instrument of economic policy. They were primarily governed by what might be described as fiscal pragmatism. The only thing the legislator troubled about was the amount of the resources that could be obtained; and the reforms introduced, almost always under the pressure of a substantial estimated deficit, gave rise to the establishment of a tax system that was full of contradictions and of little use as an instrument of economic policy.

Despite the increased revenue obtained by means of the reforms, the tax system set up was not even constructed in relation to its fiscal function. A large number of legal limitations, apart from deficiencies in the management and collection of taxes, survived in the fifties as a legacy from the old pre-industrial pattern of so-

ciety. Pressures to increase government resources did not go as far as to promote a radical reform of legal definitions and administrative machinery in the fiscal field. This was partly because the adjustments effected on an empirical basis showed high revenue yields, and partly because the use of other sources of funds of an inflationary character was an easy way out which distracted attention from a reform that, moreover, raised political problems that were difficult to solve.

Observation of the progressiveness of the tax structure reveals the paradoxes that crept in during the course of changes dictated solely by fiscal motives. For example, the different rates of taxes on consumption penalize certain mass consumption goods (such as sanitary items) more heavily than some durable consumer goods; taxation on the profits of juridical persons tends to ignore the disparities in income distribution; and so on. Yet in Brazilian legislation the need for the tax system to counteract the inequitable distribution of income is an explicitly stated principle. It would be easy to cite many other cases in which tax measures are at variance with the over-all objectives of economic policy.

Although there has long been awareness of the deficiencies of the tax system, they only became of major concern to the Government when the aggravation of the inflationary process and the increasingly dangerous nature of fiscal deficits were reinforced by the shifting of the centre of gravity of the savings and investment process from the external sector to the internal economy. Not only was priority given to a reform of the tax system which would increase its efficiency as a means of providing the Government with resources, but it began to be thought necessary to add new responsibilities to this traditional function. Thus, alongside, the changes aimed at increasing the fiscal efficiency of the tax system, a move was started to use differential tax treatment and tax incentives as instruments for the promotion of industrial development.

An increasingly favourable reception was also accorded to the idea of an over-all reform of the tax system which would give it a degree of progressiveness compatible with the economic situation and would enable tax incentives to be brought into the service of development policy. The problem aroused so much interest in government circles that a high-ranking commission was set up to draft a preliminary reform project, which was to conform to the principles set forth in the Message from the President of the Council of Ministers to the Council in 1962 and endorsed in the Three-Year Plan in 1963. But although the timeliness of the subject has been underlined by the procession of tax laws that have followed hard on one another's heels, the basic structure of the tax system has not been modified in any way that warrants reference to an effective tax reform. Such a reform is still a somewhat vague shape on the Government's horizon.

Thus, the changes in the tax régime that took place in the three-year period did not represent a radical reform; but they did at all events introduce important innovations, and heralded a trend towards the complete remodelling of Brazil's tax system. These innovations may be grouped in four major categories, according to the spirit by which their introduction was prompted.

The first group shows no striking contrast with the changes effected during the fifties. Income tax under-

went almost annual modification during the three-year period that followed, the basic aim being to increase the revenue it yielded by raising the rates and closing the loopholes which allowed a great deal of evasion of certain types of payment to take place. In this context, great importance attaches to the change in the treatment accorded to bearer shares, which were subject to the highest rate in the progressive scale applicable to personal income. Another point to be mentioned in connexion with income tax is the establishment of a variety of surcharges, which formed the basis for two important compulsory loan operations. Remittances of profits to persons living abroad were subject to the same rates as bearer shares; it should be noted that when the enterprises concerned were engaged in economic activities of relatively little importance for the national economy, this tax was augmented by a 20 per cent surcharge. Lastly, income tax was made more progressive, either as a result of the measures listed above, or because tax schedules were related to the minimum wage. Similarly, steps were taken to increase the revenue collected by the Federal Government by rescheduling, on various occasions, the rates of the federal excise tax on consumption and the tax on electric power, fuels and financial operations. From the fiscal standpoint, the most productive of these changes was that affecting the tax on electric power.

In contrast, the second group of tax provisions applied during the period under consideration reveals an endeavour to use tax machinery to further the ends of development policy. With the creation of SUDENE, preferential tax treatment was granted to industries installed or in process of installation in the Nordeste and subsequently, by extension, throughout the Norte area. The aim of these measures was to counteract to some extent the tendency for investment to be concentrated geographically in the most dynamic economic areas. Briefly, industrial investment in the less developed parts of the country enjoyed concessions such as the following. They were exempted from all import duties on industrial goods as soon as they were classified, at the proposal of SUDENE, as priority activities. Industries processing local raw materials and declared to be of importance for the development of the area will pay only 50 per cent of income tax and the corresponding surcharges, up to the financial year 1968. Juridical persons whose capital was entirely Brazilian were authorized to make a deduction of up to 50 per cent in their income tax declarations, provided that the resources concerned were used for the purposes of an industry considered to be of importance for the development of the area, and on the condition that they also applied resources of their own equivalent to the amount of the exemption.

Lastly, in 1963 the system previously applied in relation to the sales and consignment tax levied by the states was altered with a view to the partial correction of regional disequilibria. Under the previous legislation, the tax had been paid in the place of residence of the seller, whereas it was now to be payable in the state of destination, in the case of transfers of industrial products, and in the state of origin in that of agricultural, livestock or mining commodities. Special treatment was thus accorded to agricultural and mining states, which will always collect the tax on inter-state sales; the opposite will take place in states whose production is mainly industrial, since these will lose the tax on trans-

fers of their products outside their own territory. In this way an attempt has been made to benefit states producing agricultural commodities and consuming industrial goods; this will help to offset the previous transfers to more highly industrialized areas represented by the taxes paid by poorer areas.

During the three-year period the widespread demands of the Brazilian municipios for increased financial resources were given a hearing. In distributing tax powers among the three politico-administrative levels, the Constitution of 1946 had assigned the municipios taxes that were not very dynamic. In subsequent years the proportion of government income represented by these taxes declined, a process which facilitated the Federal Government's investments in infrastructure. But the limited financial capacity of the municipios, which allowed of only a modest expansion of urban services, gave rise to severe pressure for the redistribution of income in favour of the municipios. In November 1961, the provisions of the Constitution with respect to the tax powers of the Federal Government, the state and the municipios were amended. By virtue of this amendment, two taxes were withdrawn from the states and handed over to the municipios, namely, the rural land tax and tax on transfers *inter vivos*. It was also established that 15 per cent of total income tax revenue and 10 per cent of the total revenue deriving from the tax on consumption should be handed over to the municipios, with the saving clause that at least half the funds received by the municipios under the former head should be used for rural welfare projects.

This change in the Constitution relieved the uneasy financial situation of the municipios, but also frustrated the aim of using the land tax to promote the economic efficiency of land use. When this tax had gone to swell the funds of the states, it had served as a supplementary resource for land reform purposes. Now it was in the hands of a smaller administrative unit, subject to more powerful pressure from local political interests, and not really in a position to help to reshape the structure of land tenure and improve land use; consequently, the tax was obscured or nullified.

The fourth aspect of tax legislation in the three-year period which is worth mentioning relates to incentives to industrial exports. For example, to encourage exports of Brazilian products based on imported inputs, the total or partial reimbursement of import duties on the goods used in manufacturing those intended for export (draw-back) was established in conformity with the principles laid down by CPA (Customs Advisory Council). This concession was applicable to raw materials and semi-manufactured products used directly in the manufacture of goods for export; to parts, spare parts, apparatus and machinery for apparatus, vehicles or industrial goods intended for export; to goods intended for the packing, finishing or presentation of export products; and also to goods imported for processing in Brazil and subsequent re-exporting.

In summing up this cursory appraisal of the changes made in the instruments of economic policy, it must be pointed out that while so far no remodelling of monetary instruments has been promoted, as occurred in the case of tax instruments, the reform of the machinery of economic policy has recently acquired new proportions and aroused greater interest. Some aspects of this de-

velopment are worth noting. Throughout the whole of the post-war industrialization process based on import substitution, Brazil had no conventional Central Bank and no means of co-ordinating the various instruments and procedures applicable to monetary flows. However, this lack was namely of a formal nature, since from the standpoint of the requirements of development policy, the powers at the country's disposal were adequate and efficacious.

It should be recalled that the Federal Government, as the leading banker, had direct control of about 35 per cent of the loans obtained by the private sector, as well as of a major proportion of agricultural credit. Other financing agencies under its direct control granted almost all long-term and co-operative loans. In such circumstances, the Government exercised direct influence over a considerable and strategically important proportion of monetary flows, a fact, which, in the absence of other considerations, reduced the need for more precise indirect means of control of banking operations. Inasmuch as the savings and investment process was simplified and directly associated with external flows, the state was also able to resort to the manipulation of exchange instruments and thus dispense with the use of monetary instruments in this field. Lastly, the secondary position occupied by the inflationary process as an object of economic policy at the level of government concerns, contributed to the relative oblivion to which monetary instruments were consigned during the fifties. In an economic atmosphere in which an annual rate of inflation of about 20 per cent was accepted without a tremor, it was easy to resort directly to forms of credit that tended to expand the monetary supply for the financing of Government deficits.

But in the course of the industrialization process a situation gradually arose which was conducive to the assignment of priority to the remodelling and adjustment of monetary instruments. In the first place, economic life was becoming increasingly complex with the installation of industries manufacturing consumer durables and capital goods. As production processes became more capital-intensive, new problems arose in connexion with the financing of long-term sales and the formation of working capital. Similarly, the system began to require the financing of domestic production of capital goods. In response to these demands, the intermediate financing sector underwent institutional changes; a capital market came into being; a large number of medium-term credit companies, mutual investment funds, and so forth, were set up; new financing practices made the banking system more complex. The control and regulation of these new agencies connected with monetary and financing operations entailed the need to make adjustments in the state apparatus.

Secondly, as the inflationary process acquired an exponential character it became the primary objective of economic policy. The control of inflation was indispensable if economic growth was to be maintained and social tensions alleviated. As has already been pointed out, this anti-inflationary policy was largely the expression or the close concomitant of the need to establish new systems of financing public expenditure and the operations of the private sector. The transfer of the focal point of interest from development policy to stabilization naturally involved concern with monetary instruments.

Thus, the increasing complexity of an industrialized economy, the corresponding changes in financial institutions and the intensification of the inflationary process suggested the reorganization of the system of monetary control and policy formulation in this field.

Despite the formulation of great many projects for the reform of the banking system and the creation of a Central Bank in accordance with the conventional pattern, Brazil went right through the fifties without introducing any radical change in its monetary instruments. After the creation of the Superintendencia da Moeda e Credito (SUMOC) in 1945,<sup>97</sup> a measure necessitated by the fact that the expansion of the operations of the Banco do Brasil and the private banks had to be subjected to some measure of control, no other innovation of any significance was introduced. The division of labour in the monetary sector between SUMOC and the Banco do Brasil made it possible to put into effect a monetary policy complementary to the industrial development effort. The Banco do Brasil fulfilled a number of the typical functions of a Central Bank,<sup>98</sup> thus reflecting the importance of the existence of a State Bank of such high financial standing in the Brazilian scene. In some respects the Banco do Brasil did act to this effect. For example, the behaviour of the Bank with regard to the expansion of the monetary supply was typical of its autonomy. The compulsory deposits made by the commercial banks, the amount of which was determined by SUMOC, served as a basis for its credit operations. In practice, this meant that the control of the creation of means of payment was switched over to the loan policy of the Banco do Brasil and subject to the latter's decisions.

The joint action of the Banco do Brasil-SUMOC combination during the fifties undermined the foundations of the various projects for the creation of a Central Bank.

As from the second-half of the fifties, the development of the production of durable consumer and capital goods brought into being credit, financing and investment associations. These complemented the services offered by the commercial banks, inasmuch as they extended medium and long-term credits and, by tapping private savings, made the financing of sales possible. As no adequate

<sup>97</sup> The terms of reference of SUMOC, which is a direct dependency of the Ministry of Finance, include the typical faculties of a Central Bank: to request issues of paper money, to receive only bank deposits, to establish interest and rediscounting rates as well as the percentages of the cash holdings of banks, to promote the sale and purchase of government securities, to guide and channel exchange policy and to undertake the supervision of banking establishments.

<sup>98</sup> The Banco do Brasil possesses the rediscounting and exchange departments and the bank clearing house that are typical of a Central Bank. Besides being a commercial and rural bank and the financial agent of the National Treasury, it is the communal treasury of the monetary authorities and controls foreign trade.

legislation existed, however, the intervention of these associations in the field of operations of the commercial banks gave rise to innumerable problems. These and other distortions were attenuated by regulations which the Ministry of Finance issued in 1959, and by virtue of which the Government established rules for the constitution, financing and terms of reference of credit, financing and investment associations.

Since that date, the Executive has submitted a quantity of draft projects and other alternatives to Congress, thus evidencing its interest in the question. It is true that so far none of these schemes has secured the political support required for its approval, but there have recently been signs of a trend towards monetary reform which is on the point of taking shape in explicit legislation. Its characteristics are as follows:

(a) The creation of a national monetary council (Conselho Monetário Nacional), responsible for formulating a policy adapted to the over-all economic and social development objectives, with due regard to regional peculiarities and the selective distribution of credit according to the nature of economic activities. It will also be incumbent upon this Council to channel the application of the resources of financing institutions in general—both public and private—with a view to promoting, in the various parts of the country, conditions favourable to the well-balanced development of the national economy. It will also be responsible for co-ordinating monetary and tax policy, in relation to the objectives established in a plan to cover several years, approved by the Executive. Lastly, the Conselho Monetário Nacional will have to fulfil all the regulatory functions characteristic of a Central Bank, when, under the terms of the project, both SUMOC and the Banco do Brasil, which are at present responsible for formulating as well as executing monetary policy, have become merely the executors of the policy in question:

(b) The functions of supervising the monetary system and preparing the analyses and reports required by economic policy will be left in the hands of SUMOC;

(c) The Banco do Brasil will be the executive organ.

It should be stressed that this project endows the public sector with all the instruments it needs for the effective formulation and control of money and credit policy. By rationalizing the operations of the financial agencies of the public sector, placing them under the guidance of the Conselho Monetário Nacional and remodelling the activities of the whole of the private financing system, this project for the reform of the banking and credit system really represents a concrete step in the direction of the precise adjustment of this important panel of instruments to the conditions obtaining in Brazil. The interest displayed in this question warrants the belief that the Legislature will shortly give its final approval to the reconstruction of monetary machinery on the lines sketched out here.

## DUAL EXCHANGE RATES AND ECONOMIC DEVELOPMENT

by Nicholas Kaldor

The latest study by the United Nations Secretariat<sup>1</sup> provides ample proof, if further proof were needed, that the problem of the economic development of the low-income countries cannot be solved unless these countries become not only producers but also exporters of manufactured goods on an important scale. At present 86 per cent of the exports of the "developing countries"<sup>2</sup> consists of primary products, and only 14 per cent of manufactured goods. But the world market for primary commodities expands only slowly, owing to the low income-elasticity of demand. This is partly due to the low income-elasticity of food consumption in the wealthy countries and the rapid growth of their own agricultural production, and partly to economies in the use of materials in industry and the development of synthetics. Since 1938 the volume of world trade in manufactures has more than trebled, while the volume of trade in primary products has increased only by two-thirds. If the primary exporting regions were to continue to depend mainly on exports of primary products, their export receipts to the outside world could not be expected to increase by more than 3 per cent annually even if their export prices remained constant.<sup>3</sup> Their import requirements, on the other hand, would be bound to grow faster than their domestic product—mainly because their import requirements for capital goods increase more rapidly than their domestic fixed capital formation, and also because their own income-elasticities of imports of consumer goods and raw materials are high.<sup>4</sup> According to the United Nations estimate, the attainment of a 5-per-cent annual growth rate (the United Nations "development target" for the end of the 1960's) would require an annual increase in imports of at least 6 per cent a year.<sup>5</sup> Clearly, such rates of growth of imports cannot

be sustained unless the rates of growth of exports are also stepped up to the same extent. While economic aid from the "developed" countries can provide a temporary solution to the developing economies' growing balance-of-payments problem, it cannot, even in the best of circumstances, provide a permanent one. A situation in which imports rise twice as fast as exports and in which the continuance of growth is so closely linked to the growth of imports, is bound to spell disaster in the long run.

On the basis of current trends, and on the assumption that the current rates of economic growth of the underdeveloped countries were to be maintained, the proportion of annual imports to be financed by external aid would rise at an alarming rate. According to the projection in the United Nations study,<sup>6</sup> a 4.8-per-cent average growth rate for the domestic product of the underdeveloped countries would entail an increase of 95 per cent in their annual import requirements between 1959 and 1970. Their export receipts from the sale of primary products at constant prices would, according to the United Nations calculations, rise by only 40 per cent. Hence their current trade gap with the developed countries (allowing for a \$2,000 million increase in exports of manufactures) would rise by \$11,000 million, and their balance-of-payments gap on current account (on the assumption of a \$4,000 million increase in their net adverse balance on invisible account) by \$15,000 million—i.e., from \$5,000 million in 1959 to \$20,000 million in 1970—before any allowance is made at all for amortization or repayment obligations on past debts. It is unlikely that economic aid will be forthcoming on such a scale; the implied increase in *net* lending (i.e., in excess of debt repayments) by the advanced countries would be more than twice as great as the projected rates of growth of their national incomes, though as a proportion of the gross national products of the advanced countries, or of their defence expenditure, even this sum would not loom large. But even if it were forthcoming in 1970, it certainly could not be expected to be so indefinitely—the United Nations projections, if carried forward to 1980, would yield a balance-of-payments gap of no less than \$57,000 million. Unless the underdeveloped countries succeed in stepping up the rate of growth of their exports so as to narrow their trade gap sooner or later, the whole process of economic growth based on external aid is bound to break down.

Given the low-income-elasticities of demand for food and raw materials in the developed countries, such an acceleration of exports can come only from one or two sources: either from an increase in exports (mainly primary products) to the centrally planned economies,

<sup>1</sup> United Nations, *World Economic Survey, 1962, Part I: The Developing Countries and World Trade*, New York, 1963.

<sup>2</sup> This term comprises all countries except those of North America and Western Europe, together with Australia, the "centrally planned" economies, Japan, New Zealand and South Africa.

<sup>3</sup> In the period 1950-61 the quantum of exports from the underdeveloped areas to the developed areas expanded at 2.6 per cent a year in the case of food, 1.6 per cent in the case of raw materials and 9.3 per cent in the case of petroleum; the current dollar value of exports of the three categories together increased at the rate of 3.3 per cent (see *United Nations Statistical Bulletin*, January, 1964, table B). Since the growth of petroleum exports cannot be expected to continue at such high rates, the rate of growth of the quantum of exports of primary commodities cannot be put at 3 per cent a year, given the current rates of growth of the gross national products of the developed countries (cf. *World Economic Survey*, op. cit., p. 6).

<sup>4</sup> Cf. *ibid.*, text table p. 6. Also, GATT, *International Trade in 1959*, pp. 40-56.

<sup>5</sup> A 5-per-cent growth rate in the domestic product, with an estimated population increase of 2.4 per cent, would generate a rate of growth of real income per head of 2.6 per cent, which would mean that by the turn of the century real income per head in the underdeveloped countries would rise from the present \$130 to \$360. At that level it would still be only one-quarter as high as the *current* level of real income per head in the United Kingdom.

<sup>6</sup> *Ibid.*, table I-6.

or from the growth of exports of manufactured goods to the developed countries.<sup>7</sup>

The volume of the under-developed countries' exports to the centrally planned economies (including China and Yugoslavia) is still small; in 1962 it amounted to \$1,500 million, or just over 7 per cent of their total exports to the outside world. But in recent years it has been growing rapidly; during the period 1956-62 the value of this trade increased by 170 per cent, or 16.5 per cent per annum. If its volume continued to expand at say, 9 per cent per annum—which is not impossible in view of the recent statements made by the USSR delegation to the Geneva conference<sup>8</sup>—the rate of growth of the total volume of exports of primary products (given a 3-per-cent growth rate for the exportation of such commodities to the developed countries) would gradually rise to 3.8 per cent by 1980 and, if the trend persisted, to 4.4 per cent by 1990. Assuming, however, that the import requirements of the under-developed economies would continue to grow at 6 per cent a year, this would still leave a very considerable gap between the rates of growth of their imports and their exports, which could only be filled by accelerating the growth rate of exports of manufactured goods.

At present the world trade in manufactured goods is still almost the exclusive preserve of the advanced industrial countries: the developing countries' share is only 5.3 per cent (or 6.2 per cent, if the trade of the centrally planned economies is excluded from the total).<sup>9</sup> In recent years, however, there have been welcome signs of improvement. Thus, in the five-year period 1957-62, the dollar value of the under-developed countries industrial exports to the developed countries rose at an annual rate of 6.6 per cent—i.e., at a slightly higher rate than

<sup>7</sup> An improvement in the terms of trade for primary products would ease their problems in the short run, but it could hardly compensate for inadequate growth of the volume of exports over longer periods.

<sup>8</sup> See reference in appendix below.

<sup>9</sup> This trade at present is highly concentrated, both as to countries of origin and destination and as regards the nature of the commodities traded. According to the study by the United Nations Secretariat submitted to the Geneva conference, 10 countries (India, Hong Kong, Israel, Mexico, Iran, the Philippines, Pakistan, Taiwan, Argentina and Brazil) accounted for 75 per cent of total exports (excluding base metals), while 79 other developing countries accounted for only 6 per cent. On the side of imports 56 per cent of the total (excluding base metals) was absorbed by the United Kingdom, the United States and EFTA countries. As regards the commodity composition of such imports, 25 per cent consisted of clothing, textile yarn, fabrics and other textile products, almost 40 per cent of base metals and the rest divided between carpets and leather goods (5½ per cent), precious stones and pearls (3.8 per cent), various chemicals (3 per cent), machinery and transport equipment (4.2 per cent) and all other items (18.5 per cent). (Cf. *World Economic Survey*, op. cit., chapter 3, and also United Nations *Trade in Manufactures and Semi-Manufactures* (E/CONF.46/6).)

the exports of manufactures of the developed countries;<sup>10</sup> whereas in the previous five years, when the value of world exports of manufactures grew by 8 per cent a year, the exports of the under-developed countries increased only by 3.8 per cent yearly. If the growth of the latter's industrial exports could be stepped up, to say, 10 per cent a year—it would be hazardous to assume any higher figure—the rate of growth of their total exports would reach 6 per cent by around 1985, which would enable them, from then on, to increase their current export earnings faster than their imports. Even on these assumptions it would take another twenty to twenty-five years before they could become financially self-supporting.

The appendix to the present article gives the results of an arithmetical exercise showing how the current balance of payments of the under-developed countries would develop in the next forty years, on the assumption that their imports increased at 6 per cent a year, their exports of manufactured goods at 10 per cent a year, and their exports of primary products to the developed countries and to the centrally planned economies at 3 per cent and 9 per cent a year, respectively. The calculations also assume that the terms of trade remain constant and that the average interest charge on all future aid received to cover their adverse balance on current account is 3 per cent. On these assumptions their trade gap, expressed as a proportion of imports, will begin to diminish after 1980, and their balance-of-payments gap after 1990, though in absolute terms the latter will continue to increase until the year 2000. The cumulative deficit in their balance of payments up to the year 2000 works out at \$1,366,000 million—a staggering-looking sum, but in fact no greater than 1.5 per cent of the gross national products of the developed countries over the period, assuming that the latter also increase at a rate of 4 per cent a year. More than 40 per cent of the total deficit is accounted for by additional interest payments; if the aid to cover the current deficit were given in the form of donations or interest-free loans, the cumulative deficit would amount to \$785,000 million only, or 0.8 per cent of the cumulative gross national products of the developed countries.

No particular virtue is claimed for this exercise, except as a demonstration that "trade" and "aid" can in no sense be regarded as alternatives. If the under-developed countries are to achieve even a modest rate of growth in incomes per head and sustain it over longer periods, they will need every assistance to facilitate their trade as well as all the financial support which the advanced countries are ready to provide.

<sup>10</sup> Since textile and clothing exports accounted for a considerable part (perhaps 40 per cent) of the increase in the developing countries' manufactured exports in the five years referred to and textile exports are now restricted (see below), there is a danger that this recent rate of growth may not be maintained in the near future.

## OBSTACLES TO EXPORTS: I. THE PROBLEM OF COMPETITIVENESS

The important obstacles to a high and sustained growth rate for exports of manufactures are not likely to lie on the side of production but on the marketing side. It is not unreasonable to suppose that with their national

product growing at an annual rate of 5 per cent, the under-developed countries would increase their manufacturing at a rate of 10 per cent or more, so that they would be capable of achieving a 10-per-cent annual rise

in exports without requiring their exports to grow at a faster rate than their aggregate output of manufactured goods.

However, the fact that they could expand their production sufficiently does not ensure that they could increase their exports at that rate. The latter possibility is contingent upon their ability to sell at prices which are competitive with the products of the advanced countries; and on the willingness of the importing countries to allow this to happen, and not to frustrate their efforts by the imposition of rigid or discriminatory restrictions.

Leaving the second factor aside for the moment, the main obstacle is likely to lie in the internal cost-and-price structure of under-developed countries as between primary products and manufactured goods, which militates against the development of industrial exports. It has been well known since the days of Friedrich List that in the initial stages of industrialization the productivity of labour in manufacturing activities is very low—so low that even if wages are also very low manufacturing costs are high. As the scale of industrial activities expands, productivity increases and costs come down—partly because of the economies of large-scale production, but to a more significant extent because of the accumulation of skill and know-how resulting from activity itself, as a consequence of “learning by doing”. This is the basic justification of the now universally accepted principle that an under-developed country needs to protect its manufacturing activities from foreign competition by restricting imports through protective duties or quantitative import controls. The protection of “infant industries” is necessary to equalize the differences between “private costs” and “social costs”—i.e., to compensate for the fact that in the case of a less developed country, the marginal costs of production incurred by the entrepreneurs are higher, *relative* to the marginal social costs, than in the case of a more developed country. Accordingly, it is impossible to secure the best allocation of resources—either from the point of view of a single country, or from that of the world as a whole—without interfering with the unhindered operation of the price mechanism by means of special taxes or subsidies.

This classical argument has received powerful reinforcement in recent years from the increasing recognition of the importance of “disguised unemployment” in under-developed countries. If the number who can be effectively employed on the available land is limited, there are no alternative forms of productive employment for labour employed in non-agricultural sectors; hence the true displacement cost of such employment is zero. These two arguments operate independently and powerfully reinforce each other. Increasing returns due to learning by doing, and disguised unemployment due to a surplus of labour relative to land, both set up discrepancies between money cost and social cost in manufacturing production, and each therefore justifies differential taxation to promote industrialization.

It is less generally recognized that in either case the equalization of social comparative-cost-ratios with private comparative-cost-ratios calls for a *reduction* in the cost of industrial products (in terms of agricultural prices) by means of subsidies, rather than for a *rise* in (domestic) industrial prices brought about by means of a tariff. Looked at from the standpoint of the internal

redistribution of income, these two methods come to much the same thing: the effects of protective duties, by raising the prices which the agricultural sector pays for industrial products, amount to a taxation of agriculture for the benefit of industry, in much the same way as if a direct levy had been imposed on the former, and a direct subsidy paid to the latter. From the point of view of their consequences for economic development, however, the two methods are by no means identical: in the one case the internal *price* structure is adapted to the *internal cost* structure, whereas in the other case the internal *cost* structure is adapted to the *external price* structure.

Import duties are efficacious in promoting industrialization so long as there is scope for creating an internal demand for home-produced manufactured goods in substitution for imports. But once the limits of import substitution have been reached, the momentum of further industrial growth is bound to slow down—as indeed the history of many Latin American countries has shown. Industries which have been brought into existence in the shelter of import restrictions of some kind are not competitive in the world markets precisely because they are dependent on the maintenance of an internal price ratio between industrial and agricultural products which is higher than the prevailing world price ratio. Once the scope for import substitution has been exhausted, their further expansion is limited by the growth of internal purchasing power, which is ultimately governed by the growth of production in the complementary (agricultural) sector of the economy.

Unless the internal market is sufficiently large to enable productivity to rise to the point at which costs, at the prevailing level of wages, drop sufficiently low to become competitive with world prices—in which case the industries cease to be “infants” and are no longer dependent on protection—the kind of industrialization which is fostered by import substitution does not make it possible to raise export capacity *pari passu* with the rise in domestic income and in import requirements. It is no accident that the cotton textile industry represents the one example in which a succession of developing countries has succeeded in attaining a strong competitive position in world markets. It is an industry which caters for mass requirements, and in which therefore the size of the domestic market, even in low-income countries, is relatively large; it is also an industry where modern techniques and know-how are relatively easily acquired, and where economies of large-scale production cease to be significant beyond a certain stage. In most other cases, the establishment of a domestic industry does not raise the capacity to export because costs expressed in terms of common currency—local costs being converted to dollar costs at the prevailing rates of exchange—remain too high.

This is the explanation of the apparent paradox that industrialization aiming at “import substitution” tends to cause a *rise* in import requirements relative to export capacities and hence a chronic balance-of-payments problem. Although *some* imports are replaced by domestic production, the activity which is generated thereby inevitably raises the demand for other imports: partly because the establishment of new industries requires investment with a high import content; partly because there is an import component in any industrial activity

connected with the use of non-indigenous materials, fuel, replacement of machinery and components, etc.; but mainly perhaps because industrial activity generates additional incomes—additional wages and profits—a proportion of which is inevitably spent on imported goods or services.<sup>11</sup>

When import requirements exceed the capacity to export on account of high domestic costs, this is generally taken as evidence of over-valuation of the currency. In a sense it is; but it is essential to understand that it is not the kind of over-valuation that could be “cured” by any uniform adjustment of the exchange rate. This is because the exchange rate which would make it possible for an under-developed country to develop export markets in manufactured products would mean a considerable under-valuation of its currency in terms of the primary commodities which form the great bulk of its exports; and the rise in export proceeds in the primary sector which follows a devaluation tends to generate an inflation in domestic costs and prices that soon neutralizes any initially beneficial effects on the export costs of manufactures.

The reasons for this are to be found (apart from the rise in the cost of imported goods) in the close link between the local currency equivalent of the main export products on the one hand and the prices of food-stuffs destined for local consumption on the other, which in turn may reflect factors operating on the side of supply or of demand, or of both. So long as primary products provide much the greater part of total exports, and so long as the bulk of such products—constituted by the so-called “cash crops”—is destined for export rather than for home consumption, competition will ensure that the money costs of agricultural products in terms of local currency will follow fairly closely the local-currency equivalent of the prices of cash crops ruling in the world market. In such circumstances, devaluation of the exchange rate will, in the first instance, raise the earnings of primary producers in terms of domestic currency; it will affect the external price, in terms of dollars, only in so far as the rise in earnings induces an expansion of output, and in so far as such an expansion has an appreciable effect on total supplies in the world market. On the other hand the increase in earnings from export crops will tend to raise demand for foodstuffs on the part of the producers; it may also tend to reduce their supply, in so far as there is some marginal land which can be switched from food production for local use to the production of export crops. For both these reasons, a rise in the domestic price of export crops is bound, sooner or later, to lead to a corresponding rise in the local price of food. And since, at the levels of income characteristic of under-developed countries, money wages in industry will be closely related to the price of food, a rise in *earnings* from primary exports will tend to bring about a corresponding advance in the level of money *costs* in manufacturing production. (It is, however, important to bear in mind that this interrelationship reflects the scarcity of land, and not the scarcity of labour; the rise in

<sup>11</sup> “Import substitution” may be efficacious in reducing the *proportion* of imports to the gross national product. But since it also raises the gross national product (at a faster rate than that of the growth of exports) it leads to an increase in *total* imports which frequently tends to exceed the rise in export earnings.

wages is a consequence of the pressure on food supplies, and not of any increase in the demand for labour originating in the agricultural sector.)

Hence, while, in the case of a developed country, there is a single rate of exchange which is capable of securing equilibrium between domestic costs of production and the prices, or the level of costs, prevailing in foreign markets, in the case of an under-developed country there is no *single* rate of exchange which is capable of securing this result. If the cost of producing primary commodities is taken as the basis, the appropriate rate of exchange is a much higher one than if the cost of production in manufacturing is adopted as the standard. Precisely because the developing countries’ balance-of-payments problem requires an adjustment in cost structures (the reduction of manufacturing costs *relative* to the prices of primary products) and not just a change in the general level of costs in terms of international currency, the desired result cannot be achieved by a straightforward devaluation of their currencies.

It is mainly for this reason that the periodic efforts of international authorities such as the IMF to secure an alleviation of the balance-of-payments problems of particular under-developed countries by the introduction of more “realistic” exchange rates, however well-intentioned, have proved so misguided. In most of these cases (e.g., in those of Chile and Argentina in recent years) devaluation has been followed by a new wave of inflation which has swallowed up the stimulus to exports afforded by the devaluation within a relatively short period.<sup>12</sup> The diagnosis that has led to such recommendations has been based on a false analogy between the situation of industrialized countries whose export prices are cost-determined and that of primary producers whose export costs are price-determined.

But even if subsequent inflation did not occur, it is doubtful whether devaluation would be a sensible method of raising the export earnings of countries whose exports consist so largely of primary products. No doubt any particular exporter of primary products might snatch an advantage in this manner at the expense of his competitors; but for this very reason, devaluation by any one primary producer puts his competitors under strong pressure to follow suit; and if a wave of such devaluations led to any general expansion in the output of primary products, the position of each would be worse than before, as a result of the subsequent deterioration in the terms of trade.<sup>13</sup>

There is no way out of this dilemma except by some system of dual exchange rates, or, alternatively, of combined taxes and subsidies which produce the same effect as dual exchange rates.

Both for administrative and technical reasons, a system of dual exchange rates is likely to yield as good an approximation to the Pigovian prescription of adjusting relative prices in accordance with marginal social costs, as the more orthodox method involving a system of differential taxes and subsidies.

<sup>12</sup> In Argentina the 40-per-cent devaluation of April 1962 was offset by an equivalent rise in domestic prices (of 65 per cent) by the end of 1963; in Chile the 42-per-cent devaluation of October 1962-January 1963 was offset by an equivalent rise in domestic prices (of 75 per cent) within a year.

<sup>13</sup> Given the well-known fact that the price-elasticity of world demand for primary products is considerably below unity.

Under the dual system, a fixed rate of exchange—the “official rate”—would continue to apply to staple exports and to all *essential* imports, i.e., to all such imports as the Government does not wish to restrict for reasons of promoting domestic industries or for other reasons such as the discouragement of unnecessary or luxury consumption. In addition, there would be a free rate (which could preferably be operated as a floating rate, though it would be open to the monetary authorities to influence the rate in question through varying the classes of transactions admitted to it), at which the exporters of manufactured goods would be free to dispose of their exchange receipts, and at which the importers of all such goods as do not qualify for a currency allocation at the official rate can purchase the necessary amount of foreign exchange in order to obtain a licence to import. The greater the pressure for such imports in relation to exports of manufactured goods, the higher the free rate will tend to be, in relation to the official rate; the higher the free rate, the greater will be the encouragement to the development of industrial exports. As the balance-of-payments pressure eased with the expansion of exports, the premium on the free rate (in relation to the official rate) would gradually diminish, and might disappear altogether when exports had risen sufficiently to balance the demand for imports at the official rate. So long as the Government can make certain that the foreign exchange proceeds from the sale of staple exports are surrendered at the official rate—which will be ensured if the marketing of such exports is in the hands of a publicly-owned Marketing Board—the operation of such a system raises no great administrative difficulties. The kind of imports which are entitled to foreign exchange at the official rate can be clearly demarcated; and a system of advance deposits in local currency would ensure that the foreign exchange so allocated would in fact be spent on the goods in question.

If the obligation to purchase foreign exchange at the free rate were to replace alternative forms of import restriction through protective import duties or import quotas, the system would possess two great advantages from the point of view of the efficiency of resource allocation. The first is that it would ensure that the differential tax on imports was matched by an equivalent differential subsidy on exports—the premium of the free rate over the official rate is indeed nothing else than a uniform *ad valorem* import duty in conjunction with a uniform *ad valorem* export subsidy. In the second place, it would combine the advantages of free trade from the point of view of fostering international specialization and the division of labour with the advantages of protection for the promotion of local industrialization. (This second advantage would be obviously all the greater, the larger the number of under-developed countries that adopted such a system.) For the fact that both the import-duty rates and the subsidy rates for any one country were *uniform* in *ad valorem* terms would mean that each country would tend to concentrate its resources on those particular branches of industry for which it had the highest comparative advantage; whilst the fact that these tax-subsidy rates would tend to vary inversely with the stage of economic development—the least developed countries tending to have the

highest rates, and *vice versa*<sup>14</sup>—would mean that relative backwardness would not impose a handicap on the development of industries in any particular area. It would thus combine the advantage of regional economic integration with a balanced distribution of industrial development over the region: as is well known, economic integration through customs unions and free-trade areas (as between countries at substantially different levels of development) invariably tends to concentrate development in the more advanced areas and to retard it in the more backward regions.<sup>15</sup>

As against this, it may be argued that a system of *uniform* taxes and subsidies may sometimes encourage the development of the “wrong” kind of industries: those which possess the greatest comparative advantage *initially*, but which may not be the most promising *ultimately*, in the sense, for example, that they afford the best opportunities for exploiting local natural resources, or that they possess—through linkage with other industries—external economies in the highest degree. The possibility of this certainly exists. However, experience has amply shown that the alternative of promoting industrialization through differential taxes or prohibitions—giving each particular industry the protection it requires to make domestic production profitable—tends to produce the opposite evil of excessive diversification and fragmentation (with each country attempting to replace imports in respect of as many commodities as possible), the consequences of which are likely to be far more detrimental to economic development.<sup>16</sup> It

<sup>14</sup> Since the less developed a country is, the lower is its capacity to export *manufactures* in relation to its import requirements in the same category, the exchange rate at which its imports and exports of manufactures came into balance (which is the rate that would tend to get established, if the supply of foreign currency in the free market came exclusively from the exporters of manufactures, and the importers of manufactures, were wholly dependent on that market to obtain licences to import) would obviously be the higher in relation to the official rate, the lower the stage of development. Indeed, for countries in the early stages of industrialization, it would be necessary to direct part of the foreign exchange earnings from the sale of staple products (or from other sources) to prevent the premium on the free rate from becoming inordinately high. Hence, irrespective of any general shortage of foreign exchange (which depends on the over-all balance-of-payments position), the less developed country could always ensure that the premium on its free rate stood higher than that of a more developed country—at any rate so long as countries refrained from manipulating the premium upwards by *reducing* the supply of foreign currency in the free market through open market operations. It would be reasonable, however (if this system came to be generally adopted), to fix a ceiling for the premium for each particular country—a ceiling that would take into account the varying circumstances of different countries, in particular the differences in the level of their manufacturing costs in terms of primary products—and to require the monetary authorities of each country to keep the free rate at or below this level, by sales of foreign exchange in the free market.

<sup>15</sup> This has been the experience with experiments in economic integration through customs unions in Africa and the Caribbean (e.g., in the East African Federation, or the Central African or the West Indian Federation), and it is the main obstacle to the establishment of such federations among newly emergent states, many of which are much too small to permit the development of efficient industries catering only for their home market.

<sup>16</sup> It would probably be too much to expect that the Governments of under-developed countries could be induced to abolish such differential duties or prohibitions (as between different industrial products) altogether. But the institution of a free exchange rate, on the lines described, would certainly give a push in this direction; it would also open the way to regional agreements among the under-developed countries themselves which would permit their abolition in intra-regional trade.

is also conducive (as experience has shown) to an excessive deterioration of the terms of trade of primary producers, with adverse effects on economic development, through the discouragement of agricultural production.

A system of dual exchange rates is contrary to the prevailing economic philosophy, as embodied in the Articles of Agreement of the International Monetary Fund, and indeed the pressure of the IMF has been consistently exerted to suppress such practices.<sup>17</sup> This again provides an example of how rules which are reasonable enough as between developed countries are applied in the context of the very different circumstances of under-developed countries, where they make no sense.

Failing a solution through a system of dual exchange rates, there are two possible alternative courses of action which would serve the same objectives. One possibility would be a general devaluation of currencies combined with the imposition of such export duties on primary products as would leave the export proceeds of the producers in terms of local currency unchanged. The proceeds of the export duty could then be used to subsidize essential imports so as to prevent the inflationary effects of higher import prices on the cost of living. The alternative would be to leave exchange rates unaltered but to levy a tax on exports of primary products, the proceeds of which would be used exclusively for the payment of a subsidy on exports of manufactures.<sup>18</sup>

The first alternative has two disadvantages. For one thing, in order to deal with the problem of manufacturing costs effectively, both the general devaluation and the rate of export duties on primary products would have to be fairly high—possibility as much as 50 per cent or more in some cases. It might be difficult for under-developed countries to impose such high export duties, since these are bound to meet with vigorous resistance from the primary producers. In addition, there would be a strong temptation for any one primary producing exporter to gain some competitive advantage by not imposing an export duty to the full extent of the devaluation.<sup>19</sup> A second disadvantage is that a large-scale devaluation is bound to upset the internal price structure of imported goods of all kinds. It may be difficult to compensate for this effectively through a policy of subsidies to essential imports.

The alternative policy of combining export taxes on primary commodities with export subsidies on manufactured goods has the advantage that it affords a considerable stimulus to the development of manufactured exports with relatively little disturbance to domestic or

international prices. Thus, for the average under-developed country which derives 90 per cent of its export proceeds from the sale of primary products and only 10 per cent from the sale of manufactured goods, a 5-per-cent duty on exports of primary products would finance a 45-per-cent subsidy on industrial exports. Irrespective of whether the export duty is passed forwards or backwards, a 5-per-cent duty is not likely to make a major difference either to the position of domestic producers, taken as a whole, or to the position of the importers of primary commodities.

To be fully effective, however, the introduction of such a policy would require both the co-operation of the importing countries and general agreement on participation among the under-developed countries. The main problem, as regards the policies of importing countries, is that the case for the differential subsidy on manufactured exports of under-developed countries should be universally recognized and that this should not be regarded as an instance of "dumping". As was shown earlier, the logical counterpart of the need for under-developed countries to impose protective duties on manufactured imports, which is now generally recognized, is that they should also be exempt from the general prohibitions concerning subsidies on exports, provided that the extent and manner of administering such subsidies is governed by clearly defined rules. Such rules could take the form, *inter alia*, of limiting the amount paid in subsidies on exports of manufactured goods to the proceeds of the special levy on exports of primary products. A ceiling percentage might also be fixed. It might further be considered desirable that the special levy on primary commodities should be made at a uniform rate not exceeding, say, 5 per cent of the f.o.b. value of exports of commodities subject to it.

The effect of these provisions would be that the permissible rate of subsidy on manufactured exports would vary inversely to the proportion of total export proceeds derived from manufactures. Thus, while a country which obtained only 10 per cent of its total export earnings from the sale of manufactured products would be able to grant a rate of subsidy of 45 per cent, another country which derived one-third of its export proceeds from the sale of manufactures would only be able to grant an export subsidy of 10 per cent; and a third country, of whose exports one-half consisted of manufactures and one-half of primary products, would be permitted an export subsidy rate of only 5 per cent. In other words, the rate of subsidy would decline as a particular country advanced to higher stages of economic development, so that the share of manufactures in its exports increased. The definition of "primary products" and "manufactures" would require careful delineation, as well as the range of countries which should qualify for the privileges of the scheme. In the case of processed materials, the 5-per-cent duty might be imposed on the value of the raw material content of the processed product, and this would be deducted from the subsidy payable on the f.o.b. value of the processed goods.

Clearly, a scheme of this kind would not provide quite the same flexibility as a system of dual exchange rates; it would not ensure that the subsidies on manufactures were in appropriate relationship to the protection conferred by import duties or quantitative restrictions, or that the system of protection was rationalized

<sup>17</sup> Multiple exchange rates existed after the war in a number of countries (mainly in Latin America), though they were conceived as an instrument of import control rather than as one of export promotion.

<sup>18</sup> A third possibility—that of matching import duties on manufactures with equivalent export subsidies—comes to the same thing (except for the possibility of differentiation) as a system of dual exchange rates.

<sup>19</sup> Of course it is equally open to under-developed countries to pursue a policy of competitive devaluation to gain such advantages. For political and psychological reasons, however, it is easier for a Government to hold down the prices received by local producers by keeping the exchange rate high, than to balance a low exchange rate by imposing high export duties. Moreover, exchange rate devaluation is likely to be politically so unpopular as to restrain a Government from employing this weapon deliberately to gain trading advantages, except under great pressure.

through equalization of the rates of import duties on different commodities. And it is doubtful whether the political obstacles—the need to secure the consent of

the developed countries to a scheme of export subsidies—are any less formidable than those involved in the operation of a system of dual exchange rates.

## OBSTACLES TO EXPORTS: II. POLICIES OF THE IMPORTING COUNTRIES

The other main obstacle to the industrial development of the under-developed countries lies in the unwillingness of the industrially advanced countries to permit the importation of manufactured goods from low-wage countries. This is based on a deep-rooted prejudice (which may have had more justification in pre-Keynesian times than in present circumstances) to the effect that such imports threaten the employment and the living standards of their own workers in a way in which imports from high-wage countries do not. This view received some theoretical support from those economists who, reasoning on the basis of a peculiarly rigid interpretation of the marginal productivity theory, argued that free trade between low-wage and high-wage countries would tend to equalize "factor prices" and therefore to reduce the real wage in the "advanced" country at the same time as it tended to raise the real wage in the "backward" country.<sup>20</sup>

It may be tedious, though not difficult, to prove that this view is based on a fallacy—at any rate in circumstances in which the "advanced" country follows a policy of economic expansion associated with full employment. Assuming that effective demand is maintained at an adequate level to secure the re-absorption of labour released from industries that are adversely affected by the imports in question, the total flow of goods resulting from the *same* quantity of employment will necessarily be greater than before: the labour required to produce the exports that pay for such imports must be less than the labour previously engaged in producing the goods which are now imported. This means that real wages will be higher as a result, unless the goods of which the supply increases consist exclusively of non-wage goods rather than wage goods. Since, however, imports of manufactures from low-wage countries are likely to be consumer goods, whereas the exports paying for such imports are more likely to consist of investment goods, the latter is not a likely contingency. It is more probable that the wage-earner will benefit from any resultant change in relative prices, as well as from any rise in wages associated with the increase in productivity.<sup>21</sup>

<sup>20</sup> For a guarded exposition of this argument, see W. F. Stolper and P. A. Samuelson, "Protection and Real Wages", *Review of Economic Studies*, vol. IX, November 1941, pp. 58-73.

<sup>21</sup> The fallacy in the "factor-price-equalization" theory which suggests the opposite conclusion is that it assumes that there is, in some sense, a given amount of total capital in the country which is not altered by such a structural change, so that when the labour-intensive industries contract, and the capital-intensive industries expand (it is supposed that the contracting industries are labour-intensive, since it is in these industries that the low-wage country will have a comparative advantage), there must be some offsetting change in the capital/labour ratio in *all* industries; otherwise the available amount of capital will not suffice to employ the same number of workers in the new situation as in the old situation. Hence the *marginal* product of labour will fall, even though the *average* product of labour has risen. The simple answer to this is that capital is not like "land", and its quantity cannot be treated as "given", irrespective of the distribution of output between industries. When the output of "capital-intensive" industries expands, the total amount of

In fact, the consequences of cheap imports from low-wage countries are in no way different from the effects of labour-saving innovations. In both cases there is a threat to labour in a situation in which effective demand is static, so that the saving in labour will reduce employment rather than increase total production. And in both cases there may be serious problems of adjustment and adaptation if the changes are too swift or sudden. But whereas the adjustments connected with the progress of technology have come to be accepted as part of the cost of economic progress that can, and must, be taken in its stride, the entirely analogous adjustments necessitated by enlarged import opportunities are still strongly resisted, despite the fact that quantitatively, adjustments of the latter type are likely to be far less important than those connected with technological advances. In what way does the development of a textile industry in Hong Kong differ from the invention of a synthetic fibre? A country like the United States would never dream of putting any obstacle in the way of the exploitation of a new invention, however much this might threaten some old-established industry; yet it is perfectly ready to invoke the escape clauses of GATT to protect its own textile industry from the threat of "market disruption" by means that are wholly inconsistent with its proclaimed economic philosophy.<sup>22</sup>

While quantitative restrictions on imports by the western European countries were gradually abolished in the 1950's as regards intra-European trade and later also as regards trade with the dollar area, such liberalization has not been extended to imports of manufactures from low-wage countries: indeed, in the last few years important new restrictions have been introduced. The United Nations Secretariat assembled an impressive amount of evidence (in preparation for the Geneva Conference) of the nature and extent of such restrictions.<sup>23</sup> It appears that the two major member countries of the European Economic Community (EEC), France and Germany, apply quantitative restrictions to most items which are of importance to the under-developed countries, with the exception (in some cases) of imports from countries who are overseas associated members of EEC. The United States and the United Kingdom, in contrast, pursued, until recently, a liberal policy with regard to such imports;<sup>24</sup> but when, in the late 1950's,

"capital" necessarily expands with it; the growth of output in industries with a high output per head and a high capital/labour ratio necessarily goes hand-in-hand with an accelerated rate of accumulation of capital.

<sup>22</sup> Cf. United Nations, *World Economic Survey*, op. cit., p. 70.

<sup>23</sup> Cf. *World Economic Survey*, op. cit., chap. 3, and also United Nations document E/CONF.46/6, pp. 40-49.

<sup>24</sup> This is best shown by the large difference in the share of under-developed countries in the total imports of manufactures (excluding base metals) of the various developed countries in 1962. Whereas their share amounted to 12.3 per cent in the case of the United Kingdom and 11.3 per cent in the United States, it only amounted to 3.8 per cent in the case of Germany, 3.2 per cent in the case of France and 1.3 per cent in the other countries of the EEC. (Cf. United Nations document E/Conf.46/6, table 8, p. 23.)

there was a sudden upsurge of textile imports from Hong Kong, India and Pakistan, both countries began to apply quantitative restrictions—either by direct control, or by the indirect method of inducing the exporting countries to introduce restrictions on their own exports. On the initiative of the United States an international cotton textile agreement was concluded in 1961 which was later renewed for a five-year period. The new feature introduced by this agreement is that “market disruption”, which could previously only be invoked with the authority of GATT, can now be declared unilaterally by the importing countries, without international review.<sup>25</sup>

While these restrictive policies mainly affect textiles and clothing, it must be remembered that these are the only fields in which a number of under-developed countries have already attained a strong competitive position.<sup>26</sup> So long as the present attitudes remain unchanged,

<sup>25</sup> The long-term international cotton agreement of 1962 stipulated that countries maintaining restrictions inconsistent with the GATT should progressively relax these restrictions and eliminate them as soon as possible; it also provided that there should be an automatic annual increase in quotas while the restraints are in force. Subsequently a number of importing countries announced annual increases of quotas for the five-year period of the agreement (by 12-19 per cent a year) but the largest importers, the United States, the United Kingdom and Canada exempted themselves from any obligation to admit increasing imports—on the ground that their current imports are already large! Since “market disruption” can only occur as a result of a rapid growth of imports, it could only justify a limitation on the rate of increase in imports, not an absolute ceiling on their size. (Cf. United Nations, E/CONF.46/6, pp. 47-49.)

<sup>26</sup> Exports of textile yarn and fabrics from under-developed countries to North America and Western Europe (including EEC and EFTA countries) increased from \$220 million to \$410 million

there is no guarantee that similar restrictions will not be applied in other fields as and when these also attain a competitive position.

It is to be hoped, however, that as a result of the efforts of GATT, the Geneva Conference, and the better recognition of the fact that the adjustment problems posed by the industrialization of under-developed countries are basically no different from those caused by other forms of dynamic change (such as the invention of television, which caused “market disruption” for the motion picture industry, or the invention of the motor car, which caused similar disruption for the railways or the horse-breeding industry), these attitudes will change in the future. In the meantime there is a glaring inconsistency between the professed aim of the developed countries to assist in the development of the nations through large-scale economic aid, and their commercial policies which prevent such aid from bearing fruit.<sup>27</sup>

between 1956 and 1961, or by 85 per cent, whereas such imports from other sources only increased by 45 per cent over the same period. In the latter year, however, imports from under-developed countries still accounted for only 13.5 per cent of total imports in these categories. (Cf. *World Economic Survey*, op. cit., table 3-14, p. 69 and table 3.I, p. 76, and document E/CONF.46/6, table 5, p. 15.)

<sup>27</sup> At the Geneva Conference a number of developed countries (including Britain and France) yielding to the combined pressure of 75 under-developed nations, announced their readiness to accord preferences in the matter of import duties to under-developed countries. It would have been more important if they had announced their readiness to abolish quota restrictions on such imports. (The United Kingdom, did, in fact, declare its willingness to do so, but only as part of a general agreement under which other developed countries follow suit.)

## Appendix

### LONG-TERM TRADE AND BALANCE-OF-PAYMENTS PROJECTIONS FOR THE UNDER-DEVELOPED COUNTRIES: AN ARITHMETICAL EXERCISE

The projections presented in the attached table can in no sense be considered as forecasts. Their purpose is to show the long-term implications of current trends, and the requirements in terms of both trade and aid if a growth rate of 5 per cent is to be achieved in the national product of the developing countries throughout the rest of this century, on the assumption of constant rates of change in the relevant variables.

The bases on which the various assumptions have been chosen are as follows:

(a) The assumption that a 5-per-cent growth rate requires a 6-per-cent rate of growth of imports is based on detailed studies of income-elasticities by the Secretariat of the United Nations;<sup>a</sup>

(b) The assumption that the volume of exports of primary products to the developed countries expands at 3 per cent a year is based on an assumed growth rate of 4 per cent a year in the developed countries (which is the target fixed by OECD) and an income-elasticity of demand for primary products from under-developed countries of .75. The calculations assume constant export prices;

(c) For the rate of growth of exports of primary products to centrally planned economies, 9 per cent a year has been chosen

as the most plausible assumption in the light of recent trends and of the study submitted by the USSR delegation to the Geneva Conference.<sup>b</sup> The latter suggested that “in the opinion of Soviet economists” the total external trade of the USSR might increase fourfold by 1980; and that their trade with the under-developed countries “by utilization of the existing favourable possibilities” would increase eightfold in relation to 1963 (9 per cent a year is equivalent to a sixfold increase in 20 years);

(d) The rate of growth of 10 per cent for exports of manufactured goods to the outside world has been chosen as the highest plausible growth rate that may be sustained over a long period, assuming that the policies of both the exporting and of the importing countries are modified so as to remove existing obstacles to such exports;<sup>c</sup>

(e) The net adverse balance on services account (other than investment income) is assumed to increase at the same rate;

(f) The net balance of investment income is assumed to increase by 3 per cent of the cumulative financial aid received from the outside world. This assumes that the developed countries will be prepared either to make a fair proportion of aid

<sup>b</sup> Prospects for the Development of USSR Foreign Trade (E/CONF.46/108), paper submitted by the USSR.

<sup>c</sup> The assumption of an 8 per cent growth rate for exports of manufactured goods would, *ceteris paribus*, increase the cumulative deficit up to the year 2000 by \$925 million.

<sup>a</sup> Cf. United Nations, *Trade Needs of Developing Countries for their Accelerated Economic Growth* (E/CONF.46/58), Technical Appendix.

available in the form of outright grants, or else to advance loans on specially favourable terms. (At present, in the case of India, for example, the average rate of interest on aid received in all forms works out at 4 per cent.)<sup>d</sup>

<sup>d</sup> The assumption of an average rate of interest of 4 per cent would add \$315 million to the cumulative deficit up to the year 2000.

(g) The assumption that the volume of world trade in manufactures will grow at 6 per cent a year assumes that measures of trade liberalization will continue as between the developed countries, as well as between the developed and the under-developed countries, and that the income-elasticity of demand for manufactures, of both developed and under-developed countries, will continue to exceed unity. (The rate of growth of this trade in the past decade was over 7 per cent a year.)

PROJECTIONS OF THE TRADE, BALANCE OF PAYMENTS, ETC. OF THE DEVELOPING COUNTRIES WITH THE OUTSIDE WORLD

1960-2000

	Assumed exponential growth rate (percentage)		1960 (actual)	1970	1980	1990	2000
	Per year	Per decade					
<i>Thousands of millions of dollars at 1960 prices</i>							
Imports from the outside world (f.o.b.).....	6.0	82.2	22.4	40.8	74.4	135.5	246.9
Exports of primary products (f.o.b.):							
To developed countries.....	3.0	35.0	17.1	23.1	31.2	42.1	56.8
To centrally planned economies.....	9.0	146.0	1.2	3.0	7.3	17.9	43.9
Exports of manufactures to the outside world (f.o.b.)..	10.0	171.8	2.6	7.1	19.2	52.2	141.8
Visible balance .....			-1.5	-7.6	-16.7	-23.3	-4.4
Transport, travel and other services (net).....	6.0	82.2	-1.0	-1.8	-3.3	-6.0	-11.0
Investment income (net).....	a	a	-2.7	-5.8	-13.2	-26.6	-43.9
Invisible balance .....			-3.7	-7.6	-16.5	-32.6	-54.9
<i>Balance on current account</i> .....			-5.2	-15.2	-33.2	-55.9	-59.3
Cumulative balance in decade.....			—	-102	-242	-446	-576
Cumulative balance from 1960.....			—	-102	-344	-790	-1 366
Cumulative balance from 1960 assuming interest-free aid			—	-87	-261	-534	-785
Gross national product of developed countries.....	4.0	49.2	920	1 373	2 048	3 056	4 559
Gross national product of developing countries.....	5.0	64.9	170	280	462	762	1 257
World exports of manufactures <sup>b</sup> .....	6.0	82.2	61.2	111.5	203.2	370.2	674.4
Exports of developing countries <sup>c</sup> .....	10.0	171.8	3.8	10.3	28.1	76.3	207.4
<i>Percentages</i>							
Exports of developing countries as a percentage of world exports of manufactures .....			6.2	9.2	13.8	20.6	30.8
<i>Aid to developing countries as a percentage of gross national product of developed countries</i>							
I. Assuming average interest of 3 per cent on loans and grants:							
Per decade .....			0.6	0.9	1.4	1.7	1.5
Cumulative .....			—	0.9	1.2	1.5	1.5
II. Assuming interest-free loans and grants:							
Per decade .....			—	0.8	1.0	1.0	0.7
Cumulative .....			—	0.8	0.9	1.0	0.8

<sup>a</sup> Assumed to increase by 3 per cent of the cumulative adverse balance on current account.

<sup>b</sup> Excluding the centrally planned economies.

<sup>c</sup> Including exports to other developing countries.



# POPULAR PARTICIPATION AND PRINCIPLES OF COMMUNITY DEVELOPMENT IN RELATION TO THE ACCELERATION OF ECONOMIC AND SOCIAL DEVELOPMENT

## INTRODUCTION

The present article reproduces the main ideas contained in one of the documents<sup>1</sup> presented by the ECLA secretariat at the Latin American Seminar on the Role of Community Development in the Acceleration of Economic and Social Development, held at Santiago from 22 June to 1 July 1964.<sup>2</sup> Its aim, like that of the Seminar itself, is not to offer a set of concepts that have been fully worked out and substantiated, but simply to provide a basis for discussion and analysis of a problem that may well become of steadily increasing importance in Latin America.

A study of the experiences recounted and the comments made in the course of the Seminar by development planning experts, sociologists and directors of national community development programmes may reinforce, supplement or modify some of the views expressed in this article. The present version differs from the original document only in respect of a few statistical and stylistic changes, and the text has not been thoroughly revised in the light of the discussions in question. The secretariat therefore hastens to acknowledge the provisional character of the ideas put forward here: the sole aim of their presentation at the Seminar and their publication on this occasion is to promote an exchange of opinions which may gradually lead to the elaboration of more definitive conclusions.

The division of the subject-matter into three duly demarcated sections clearly reflects the principal objectives that underlay the convening of the Seminar, namely:

<sup>1</sup> ST/ECLA/CONF.18/L.1.

<sup>2</sup> See the corresponding provisional report (ST/ECLA/CONF.18/L.4), 1 July 1964.

A. To initiate discussion of the topic of popular participation in the efforts which the Latin American Governments are making or intend to make to accelerate the development of their respective countries;

B. To consider Latin American experience in the field of community development, with a view to its systematic use as one of the various alternative ways of making popular participation possible on a deliberate, conscious and organized basis;

C. To point out the main potential implications of such participation and of the assignment of such a function to community development, if, as seems likely, these systems of community activity are destined to continue spreading throughout the continent and acquiring the status of national programmes.

Thus, the first section is designed to promote discussion on the importance and content of participation by the people themselves in development plans and programmes. The second briefly reviews the development, nature and content of community development principles and methods, and offers a critical analysis of the status and trends of such activities in Latin America. And the last aims at introducing general discussion of the prospects for community development in the region, and touches upon some of the conceptual, technological and politico-administrative implications that might attach to its incorporation on a nation-wide scale.

It will not be amiss to reiterate that the only claim made for the concepts and suggestions put forward here is that they may serve as a "point of departure" for the discussion of the question upon which Latin America has now embarked.

## A. POPULAR PARTICIPATION IN THE ACCELERATION OF ECONOMIC AND SOCIAL DEVELOPMENT

### 1. PARTICIPATION OF THE PEOPLE AS AN INSTRUMENT OF DEVELOPMENT

In the active search for resources and fresh ways of facilitating the acceleration of Latin America's economic and social development, a new factor has gradually captured the interest of persons concerned with the theory and practice of development as a whole, namely, the possibility of *conscious* and organized participation by the people in specific development plans and projects. Side by side with such widely recognized factors as economic, financial and technological resources, internal

stability, planning, improvement of public administration, land and tax reforms, international co-operation, etc., Governments and planners are beginning to attach importance to the decisive value of an organized contribution on the part of the people.<sup>3</sup>

<sup>3</sup> See ECLA, *Progresos en materia de planificación en América Latina* (E/CN.12/677), pp. 30 *et seq.*; *Latin America and the United Nations Conference on Trade and Development* (E/CN.12/693); and the Colombian Development Plan, *Plan General de desarrollo económico y social 1962-1970*, Administrative Department of Planning and Technical Services, Office of the President of the Republic, Bogotá, 1961, pp. 422 *et seq.*

It is highly significant that the raising of the people's role to the category of an essential resource in the acceleration of development is based on conviction and on essentially technical and practical criteria. It has been coming about gradually as over-all economic and social development plans have been prepared or launched by some of the Latin American countries, and has coincided precisely with the moment when planning and public administration techniques appear to have made significant progress. The impression gained from an analysis of this situation is that it reflects not merely a new political slogan, but rather the objective recognition that it is the national community, on an integrated and organized basis, which can give real effect to the rationally formulated plans and programmes designed to remove the causes of under-development. At the same time, it appears to imply an act of faith in the Latin American peoples.

There is seemingly sufficient awareness of the fact that the acceleration of economic development and the improvement of the unsatisfactory living conditions existing in most of the Latin American countries constitute a complex process that is essentially dependent upon their limitations in respect of economic, financial and technological resources, and advanced administrative and planning practices. Likewise, there appears to be general agreement as to the need for various structural changes and the retarding effect of the present deteriorating trend in these countries' terms of trade, as well as of the limitations of international trade mechanisms.<sup>4</sup> These are vital factors, and therefore merit the most serious consideration and the proper approach. However, there is yet another of fundamental importance, which, even if in some degree the product of the existing low development levels, is usually one of the most effective stumbling-blocks to progress, i.e., the active or passive, positive or negative, part played by the people as a whole in the formulation and execution of programmes to expedite development.<sup>5</sup>

The foregoing implies the inclusion, in the conventional list of recognized factors determining the development rate of the Latin American countries, of the intangible factor represented by the people's individual and collective will and ability to play an active and positive role in endeavours to accelerate economic and social development. Its identification and recognition must consequently be followed by the search for conceptual methodological and functional instruments that will make it possible to define the content and scope of popular participation, and to plan it and apply it in the Latin American environment.

## 2. NECESSITY AND DESIRABILITY OF POPULAR PARTICIPATION

Experience in Latin America appears to indicate that well-conceived government decisions, plans and programmes worked out on a technical basis, and even internal and external financing and technical assistance possibilities, may exist quite independently of whether

<sup>4</sup> See *Latin America and the United Nations Conference on Trade and Development*, op. cit.

<sup>5</sup> See Raúl Prebisch, *Towards a dynamic development policy for Latin America*, United Nations publication, Sales No.: 64.II.G.4, and *The United Nations Development Decade. Proposals for action*, United Nations publication, Sales No.: 62.II.B.2.

the population and ruling groups are willing to carry them out or possess the proper machinery to channel the individual and collective will and ability to that end. Similarly, while the significant value of the support and of the legal and policy-making decisions of Governments and legislative bodies must not be underestimated, there are signs that the enactment of laws and decrees and the adoption of policy decisions are not enough to ensure the full implementation and continuity of programme activities.

From the standpoint of the socio-cultural and politico-administrative implications of development plans and programmes,<sup>6</sup> it is further concluded that these must obviously interpret the real social situation; they must be understood and fully accepted by the people, who must themselves put them into practice. The accurate projections, the strictly technical and scientific diagnosis, and the objectivity of planning techniques, though indispensable, are seemingly insufficient to guarantee the attainment of specific targets, unless they represent true national aims which the people are desirous and capable of achieving, and are functionally organized to fulfil.<sup>7</sup>

At the level of principles, from the functional point of view it is the population which—in all its strata and sectors, and through its manifold and complex relationships—must conceive, execute and benefit from over-all development plans. This is particularly true if they entail structural changes and if, as should be the case, their aim is to remove the causes of under-development and not merely to alleviate some of its symptoms.

In the first place an over-all development plan, if it is to have any significance, involves major changes in productivity levels and in the structure of production, employment, income, and goods and services; in production resources, capital, population distribution, and many other basic aspects of the life of a nation. It also brings about changes in the network of social and political relationships and in existing institutions. This whole process of reshaping the economic and social structure concomitantly entails a vigorous and complex process of socio-cultural change and active participation by the people. Secondly, in the general context of these plans the population, through its complex organization, plays the multiple role of architect, executor, and consumer or recipient. In the capacity of architect, it must formulate and consciously support targets; as executor, it must produce more goods and services more efficiently, consume and proceed as planned, and in general provide human resources, from the administrative *élite* to the broad masses of urban and rural workers, including the intermediate posts of authority and the different categories of technicians and administrators. As recipient, it must expand and consolidate the consumption of goods and services on a selective basis, and improve its levels of living and social status. Thirdly, if "final demand" and its structure must be equal to "aggregate supply"—in accordance with the working hypotheses laid down in some economic planning systems—it follows that the people should be equipped and organized to act as "real purchasers" and

<sup>6</sup> See José Medina Echavarría, *Economic Development in Latin America: Sociological considerations* (E/CN.12/646), 1963.

<sup>7</sup> See Administrative Department of Planning and Technical Services, Social Development Programming Branch, *Aspectos sociales del Plan General de Desarrollo de Colombia*, Bogotá, 1962.

“total consumers” of all goods and services generated by the expansion of production implicit in the plans. It is likewise assumed that certain over-all and sectoral capital formation targets will have to be met, which presupposes a fairly clear awareness of the priorities and needs of the plan. Fourthly, given the Latin American countries’ limited economic and financial resources, the people will presumably have to make additional contributions in the form of tax payments, the granting of facilities and voluntary labour. And in practice all this cannot be expected to emerge spontaneously from the marginal situation of large sectors and the inertia by which they are characterized; links must be deliberately, consciously and systematically forged between the population at large and the aims inherent in the acceleration of development.

Clearly, this reasoning in favour of such popular participation should not be interpreted in absolute terms, nor can its content be strictly quantitative. A population thus conceived as a compact unit with the organic capacity and sense of responsibility required for rational and synchronized action does not in fact exist anywhere, and certainly not in Latin America. It is idle to imagine that the people can be subjected mechanically to the rationalistic decisions typical of development plans.<sup>8</sup> Nor is there any suggestion that their participation can be rigidly organized. What is visualized is simply the possibility of their conscious co-operation in the direction and at the pace of programme activities. The intention is merely to try to bring the people into a more deliberate and conscious association with the plan in order to overcome a major part of the resistance they normally offer to any change in their economic life, production methods and patterns of consumption; to integrate, functionally and emotionally, in the life of the nation and in its efforts to expedite development, all sectors which up to now have been excluded. It is equally clear that such participation cannot be relied upon, or regarded as indispensable, in all aspects of the complex process of formulation and execution of plans and programmes, but only in those of most vital importance for development, attracting most popular interest, and most likely to prove viable.

From both the theoretical and the practical standpoint, there should obviously be a two-way channel of communication between the planning agencies and experts whose function is to work out rational combinations of action and prepare investment and development projects, and the population whose role is to execute these projects and reap their benefits. Because of the very nature of their responsibilities, planners operate on the basis of macrometric dimensions and objectives, on an essentially theoretical and abstract plane. On the other hand, the people, through a complex chain of sectors, communities and organs of action, produce and consume, and are involved in a number of economic, political, social and cultural relationships which directly affect the course of accelerated development. That is to say, it is ultimately for the people themselves to implement, or fail to implement, the

<sup>8</sup> See Andrew Frank, *La participación popular en lo relativo a algunos objetivos económicos rurales*, preliminary observations presented at the Seminar on Community Development and the Acceleration of Economic and Social Development in Latin America, held in Santiago, Chile, in June 1964.

recommendations and targets formulated by planners. In Latin America, however, there does not appear to be an adequate and practical functional channel of communication between these two basic executive fronts of planned development. As a rule, the work of planning ends with the legal promulgation of the plan and its publication, couched in highly specialized technical terms which only the initiated can understand. At best, reference to the plan is constantly made in presidential messages and high-level round-table discussions. Meanwhile, the people and their communities and action groups are left in ignorance as to what it is all about, what practical contribution it makes and how they should organize themselves to take an active part in it. In these circumstances, it is not surprising that over-all development plans, whatever the scope of the changes they seek to introduce, remain on paper, inasmuch as every area, production sector, district and community in the country goes on producing, consuming and acting on the same old traditional lines, as if the plan had never been adopted or meant nothing to anyone. Moreover, it is readily understandable that, since there is no practical enforcement of plans, or any actual awareness of the importance, desirability and urgency of their implementation, or firm popular support in the political sphere, their continuity is subject to the contingencies of political instability. Nor is it strange that at best plans are observed solely by the public sector, and sometimes only in part.

This concern for the effect of deliberate and conscious public participation in development programmes is, of course, by no means new; it has found expression at different times and in different ways, especially in the ideological and political spheres. In development planning in particular, there are several known versions of the concept, e.g., the “residual factor”, the “empathy index”,<sup>9</sup> “social communication”,<sup>10</sup> and those which reduce participation by the people to terms of higher productivity and effective consumption.

### 3. CONTENT AND SCOPE OF PUBLIC PARTICIPATION

Recognition of the necessity and desirability of participation by the people in development programmes does not seem to be particularly rare in Latin America. On the contrary, the vast majority of government documents and those issued by prominent political leaders contain frequent pronouncements renewing their demands and offers of support for such participation.<sup>11</sup> The same tendency is evident in various documents and declarations at the continental level.<sup>12</sup> The difficulty arises when its content and scope have to be defined, and when the time comes to put it into practice. A classification of the different interpretations current in the various countries, and even in the different political sectors of each, can be attempted.

One of the most widespread interpretations is that public participation is fully realized through the prac-

<sup>9</sup> See Daniel Lerner, *The passing of traditional society*, The Free Press, Glencoe, Ill., 1958.

<sup>10</sup> See Karl W. Deutsch, *Nationalism and social communication*, The Massachusetts Institute of Technology, 1953.

<sup>11</sup> A number of presidential addresses can be cited.

<sup>12</sup> See, for example, Organization of American States, *The Charter of Punta del Este*, Washington, 1961.

tice of political democracy, i.e., through voting and party action in shaping the structure of the Government and guiding its decisions. Other versions place the emphasis on participation by the people in the free play of the market in labour and in goods and services. Yet others conceive of such participation as the establishment or organization of trade unions, while some view it as confined to the organization of co-operatives; or it may be regarded as taking the form of organized action by small communities. Opinion also varies as to the scope of such participation and whether it should be confined to the implementation of plans, or should also include their formulation. In addition the question has also been raised of the ideological and political implications of public participation.<sup>13</sup>

Leaving aside the highly ideological content of the concept of public participation, and limiting the subject to the realm of development needs, two specific and practical aims are pursued, as already indicated, that are inherent in the very nature of a development programme. One is to obtain the conscious, active co-operation of individuals and groups in different programme activities, as a means to the effective attainment of the principal targets established. The other is to overcome, by some suitable approach, the *natural resistance* of every individual and every community to any process involving change.

In terms of the first aim, the population is regarded as producing, consuming and investing and availing themselves in various ways of the opportunities afforded by higher levels of living. In some cases, this is accompanied by high output, and all these activities are in line with the country's over-all development requirements, while in others the opposite is true. It is obvious that in developing countries, the bulk of the population is ignorant of proper production techniques, cannot save, or does not know how to, has a marked tendency to consume superfluous and luxury goods, is prevented by inability or ignorance from taking a more active part in the process of creating wealth, and has no knowledge of how to use to more advantage the goods and services to which it has access.

The aim of development plans is to deal adequately with these problems and to guide the development process into proper channels; but as a rule the people are not sufficiently informed of these aims or given the proper incentives; they do not know how to associate themselves with these efforts and usually there is no machinery enabling them to do so. Thus, the aim must be, as far as possible, to stimulate and make systematic use of the people's co-operation through their more conscious, deliberate and organized participation: conscious, because the people must be convinced of the desirability and urgent need of expediting development and raising their levels of living; deliberate, because it must be enthusiastic and spontaneous; and organized, so that it can be effected more easily and yield better results. Obviously it will be easier to meet these requirements if the people participate in making the decisions.

The second main objective would require making every effort to overcome the resistance of individuals

and groups to any change provided for by the plans, particularly as regards production, consumption, standard of living, etc. Such resistance stems from different causes, and in many cases may be an inherent part of the development process in the country concerned. However, it is not unreasonable to assume that the more the people are deliberately and consciously committed to the aims of the plan, the less such resistance will be. Broadly speaking, much of the resistance springs from socio-cultural factors and is inherent in any process of change. It is also partly due to the people's ignorance of the content and goals of plans, and to the absence of any direct interest linking them with those goals, which can only result from a real association with the plans' aims and an active participation in their formulation. Resistance is also due, of course, to the desire of individuals, groups, or sections of the population to defend their private interests, when they feel that the plans imply an actual or potential threat to those interests. Another cause of resistance is the party attitude of indifference or opposition to the Government and its decisions maintained by various sectors of public opinion. Or resistance may arise as a result of real or supposed conflicts of interest, either temporary or permanent, deriving from the very basis of the production process, such as those perennially confronting the owners and workers in a given enterprise.

The active co-operation and lessened resistance aimed at cannot be expected to come about on the initiative of the people. There are many historical, cultural and political factors that may stand in the way. In most countries there seems to be no tradition to serve as a basis for this type of co-operation; on the contrary, broad sectors of the population have in general been excluded from the tasks of government and the furthering of development.<sup>14</sup> It is therefore necessary to create an adequate climate of confidence and to establish new incentives for all these hitherto excluded sectors, to provide a basis for public participation.

There are several reasons for thinking that, broadly speaking, conscious and deliberate participation by the people on the lines proposed should be the result of a new dynamic social policy designed to accelerate development throughout the country, and not merely a phenomenon confined to small communities or particular sectors. It should be the result of a new conception of the Government's responsibilities and of the whole question of development. It should stem from public enthusiasm and public faith in certain aims of improving existing conditions of under-development, and should be backed by the direct interest of large sectors of the public. This implies that in some way they can take an active part in decisions, and have the opportunity to ascertain for themselves the soundness, desirability and urgent nature of development programmes. Thus programmes should be formulated in terms of the direct interests of the people, and in understandable language that can command their enthusiasm and co-

<sup>13</sup> See ECLA, *Social development in Latin America in the post-war period* (E/CN.12/660).

<sup>14</sup> See ECLA, *Social development in Latin America in the post-war period*, op. cit.; President J. F. Kennedy, in his address of 13 March 1961 announcing the Alliance for Progress; A. D. Hirschman, *Journeys toward progress* (Twentieth Century Fund, New York, 1963); and UN/ILO/FAO, *Progress in land reform*, Third Report, New York, 1962 (United Nations publication, Sales No.: 63.IV.2).

operation. Consequently, it also implies the existence of appropriate mechanisms for stimulating such participation and making it a practical possibility.

#### 4. SPECIFIC SPHERES OF PUBLIC PARTICIPATION

Generally speaking, the specific contribution deemed necessary if development plans are to be carried out more efficiently can be dealt with in three broad categories: decisions, or formulation of the plans; attainment of economic goals and improvement of the levels of living; and the strategy that should govern these efforts if they are to take an effective and consolidated form. As regards the first, it is highly desirable to have a practical instrument for channelling the people's efforts and aspirations, though the procedures followed must, of course, depend on the characteristics of the country concerned and on the various local circumstances. Whatever the distinguishing features of such an instrument, it should be based on practical recognition of the power of action and decision of the large population sectors through the bodies that genuinely represent them. Under existing conditions, it would be unrealistic to expect any substantial contribution to the formulation of plans, but it would be perfectly reasonable to consider the possibility of setting up the appropriate machinery to permit such a contribution on a progressive basis. This process should begin with a systematic discussion between the planners and the representative sectors of the community, and become more firmly established as the community increasingly shares the responsibilities of government and consciously identifies itself with the decisions adopted by technical experts on the basis of popular initiative.<sup>15</sup> Here, as in all cases of public participation, the crux of the problem is the practical effectiveness of the instruments chosen and the authenticity of the popular representation upon which the discussions and decisions are based. Thought should also be given to the adoption of a new attitude of intellectual and professional humility and deeper understanding of the whole complex of social problems, on the part of planners and technicians, that would enable them to share some of their responsibilities with the community.

The contribution to the implementation of programmes is easier to define and quantify. Over-all development plans constitute not only a combination of lines of action and over-all objectives, but also a range of specific targets of production, productivity, consumption, capital formation, raising of living standards, and many other essential aspects of the life of a nation. To meet each of these goals would require a specific contribution, by one or more sectors of the population, of a kind that could be organized and made use of on a rational basis. Thus on the production front, these sectors could be linked with the programme through a knowledge of such goals and a suitably flexible organization for their attainment in each of the most important development areas. In the agricultural sector, for example, the people should be acquainted with production and productivity goals for the various crops,

<sup>15</sup> In India, for example this type of public participation takes the form of a prior discussion of programmes between technical experts and representatives of local communities. The same procedure is followed in Puerto Rico through the well-known "public interviews" (*vistas públicas*).

they should be given incentives to attain them, and should be organized to that end. Rural communities and the bodies representing them should be aware of the volume and quality of the commodities the country plans to produce, and of the annual increase in production laid down in the plan. They should also realize the desirability and urgency of the goals concerned, and the significance of their own effort in relation to the country's over-all development. It follows that this participation by the people should constitute one of the primary practical aims of the agricultural sector's programme.

This system of participation may become essential to ensure the success of the general economic policy in many Latin American countries, not only as an end in itself, but also as part of the strategy of the plans and programmes. For example, several of these countries need to diversify their crops, and in certain cases their plans are drawn up on that basis. Yet many farmers persist in cultivating their traditional single crop, because they have not been given proper information or guidance, and in any case they lack proper facilities for crop diversification.<sup>16</sup> Some of the coffee-growing countries are a good illustration of this. The same applies to other sectors. For various reasons—for want of adequate information, or because the plan has not won sufficient support among producers, or they are not in sympathy with the plans' aims, or sometimes because they are defending interests that conflict with those aims—the most dynamic sectors of many countries tend to follow an anarchical pattern of behaviour and to redouble their efforts in fields that are highly competitive or of little value to the country's economy.

A similar situation arises as regards the consumption of goods and services. It is common knowledge that consumption trends and the behaviour of the market in general are not governed strictly by rational principles or by the priorities of the developing countries. Development plans, by definition, seek to change this state of affairs and to introduce into the mechanics of the market concepts of priority, savings and orientation of consumption. However, it is easy to see that while government programmes in many Latin American countries dwell on the need for austerity, the suppression of superfluous consumption and the strengthening of investment, broad sectors of the population seem to be following the opposite course, in flagrant conflict with their own interests. This is often due to the lack of an adequate and energetic economic policy to give impetus to, or even forcibly impose, the necessary changes. However, it should be remembered that in many cases mere coercive measures of frequent appeals by Governments are not enough. One cause of this situation is that the people have not been given proper guidance or incentives, or so organized as to be able to attain such targets as rationalization of consumption, or capital formation. It is not unrealistic to believe that the bulk of consumers would respond to systematic

<sup>16</sup> There are obviously other causes besides the question of public participation, such as land tenure systems and the operational and management methods of the agricultural sector, vocational training, etc. See "Agriculture in Latin America: Problems and prospects", *Economic Bulletin for Latin America*, vol. VIII, No. 2, October 1963, pp. 147-194; Alvaro Chaparro, *Un estudio de la educación agrícola en América Latina*, FAO publication, Rome, 1959.

guidance through suitable channels if they were fully acquainted with the development plan and convinced that it is sound and urgently needed.<sup>17</sup>

The same might be said of levels of living, where neither public investment nor the community's own resources are producing the yield, because active public participation is lacking. In fact the improvement of health education, sanitation, housing, and other components of the standards of living, calls essentially for action on two fronts. One need is for investment to ensure an adequate and prompt supply of goods and services; the other is for an effort by the community to take fuller advantage of government assistance and to make its own contribution to the solution of problems. Obviously no Latin American country is in a position at present to cover the huge cumulative deficit in health, housing, water supply, sewerage, schools, nurseries, parks, and other services.<sup>18</sup> Moreover, strict priority in the treatment of basic development problems requires that investment efforts be centred primarily on the basic causal factors of under-development. This means that the people must continually increase their efforts and make the most of the benefits they receive. In such fields as health and education, for example, government action alone is not enough, and only a constructive attitude and clear awareness on the part of the people, in conjunction with adequate organization, can channel their efforts in the right direction.<sup>19</sup>

In the political and administrative sphere, too, public participation is a corner-stone of the execution of development plans. Implementation of public investment plans and of the whole development policy calls for an active channel of communication between high government and planning spheres, and the people who must carry them out. It is at these levels that programmes and projects come into effect, and this is precisely the point of penetration that must be reached by the communications and co-ordination called for by an integrated and simultaneous effort such as the implementation of an over-all plan.<sup>20</sup> Experience in Latin America shows that the traditional bureaucratic channels, though necessary, are not enough, particularly in the case of a national mobilization of efforts such as that entailed by

<sup>17</sup> This does not refer merely to the conventional business practices of promoting and channelling market activities by means of publicity, since their automatic and mechanical nature and the interests they serve preclude them from being regarded as useful instruments for enhancing public participation on the lines proposed.

<sup>18</sup> See *Report on the world social situation* (United Nations publication, Sales No.: 61.IV.4, New York); *The United Nations Development Decade. Proposals for action*, op. cit.; and *Social trends and programmes in Latin America*, E/CN.12/645, May 1963.

<sup>19</sup> See *Report of the Ad Hoc Group of Experts on Housing and Urban Development* (United Nations publication, Sales No.: 63.IV.1), para. 205 et seq.; *Provisional Report of the Conference on Education and Economic and Social Development in Latin America*, E/CN.12/639, Santiago, March 1962; CENDES, *Censo de Salud Pública*, Universidad Central, Caracas, 1962; *Final Acts of the International Health Conference*, E/115, United Nations publication, New York, 1946.

<sup>20</sup> See P. Muñoz Amato, *Introducción a la administración pública*, Fondo de Cultura de México, Mexico, 1954, pp. 115 et seq.; A. Baykov, *Historia de la educación soviética*, Fondo de Cultura Económica, Mexico, 1948, p. 469; and *Community development and national development* (United Nations publication, Sales No.: 64.IV.2), para. 13.

over-all plans. Because of the inter-sectoral nature of development programmes, the collaboration and conscious and enthusiastic participation of the people is far more vital. In order to ensure effective action and the active generation of economic and social development at the local level, local initiative and local government must be stimulated and strengthened; this cannot be done merely through bureaucratic and administrative action, but is essentially the result of the power of initiative and co-operation of local communities and of the various organs of local opinion of the people. An analysis of some of the salient problems affecting planning in Latin America shows that some of them derive from the failure of this power of initiative and effective action to arise spontaneously at the local level.<sup>21</sup> Over-all plans in fact represent broad lines of action and guidance, and the establishment of specific targets. To interpret these targets, begin working towards them and attain them fully, is essentially a responsibility at the intermediate and local level, which should find expression in operational plans and regional and local action.

It should be recognized that this regional and local initiative cannot easily emerge spontaneously, because the widespread tradition in these countries has been to stamp it out in favour of an all-absorbing centralization.<sup>22</sup> However, certain experiences at the local and regional level throughout the region indicate that only encouragement and organization are needed to make it reappear. In all probability the Venezuelan Government will have been able to bring the benefits of land reform to over 62,000 families in only four years, largely because it has systematically invoked and encouraged the initiative of rural communities and organizations so that they themselves can set it in motion.<sup>23</sup> In Colombia the building of over 10,000 dwellings, over 2,000 schools and over 300 rural and urban water supply and sewerage systems was made possible by appealing to the communities and encouraging them to carry out the works themselves, with technical and financial assistance from the Government.<sup>24</sup> In Cuba illiteracy has been eliminated and progress has been made with other works by making them the direct responsibility of community organizations. In most countries of the area thousands of dwellings have been built under the mutual aid and self-help systems, under which the community contributes about 30 per cent of the costs. Many Asian countries, such as India, China and Pakistan, are trying to make use of local initiative to overcome the age-old barrier ex-

<sup>21</sup> See *Progresos en materia de planificación en América Latina*, op. cit.; ECLA, *Note by the secretariat on problems of the programming of social development*, E/CN.12/661, April 1963; and *A Handbook of public administration* (United Nations publication, Sales No.: 61.II.H.2).

<sup>22</sup> See F. Albi, *Derecho municipal comparado del mundo hispánico*, Ediciones Aguilar, Madrid, 1955.

<sup>23</sup> See CORDIPLAN, *Informe sobre el Programa Nacional de Desarrollo de la Comunidad*, Caracas, December 1962, and *Report of a Community Development Mission to Venezuela* (TAO/VEN/15).

<sup>24</sup> See reports by the Ministry of Education on the Four-Year School Building Programme; by the Institute of Land Credit, and the Institute of Municipal Development. See also the Colombian Development Plan, op. cit., and J. Martínez Espinosa, *Desarrollo de la Comunidad en Colombia*, Santiago, June 1964, preliminary study by the United Nations.

cluding large population sectors from the country's economic life.<sup>25</sup>

On the other hand, where organized resistance is encountered to such changes as agrarian, fiscal and administrative reforms,<sup>26</sup> there appear to be no organized or consistent efforts by the people to overcome it or to mobilize communities in defence of their real interests.<sup>27</sup> If this discrepancy in pressures were remedied, such resistance would probably be less effective, and public participation on the lines suggested here would, of course, be a basic factor.

##### 5. EFFECTIVENESS OF EXISTING INSTRUMENTS OF PUBLIC PARTICIPATION

The various channels and instruments for public participation that exist in Latin America,<sup>28</sup> do not appear, when examined individually, to suffice alone to permit the carrying out of the complex role that falls to the people in the planned acceleration of economic and social development. This statement does not involve any failure to recognize the value of some of the existing machinery, but is based on such considerations as the stage of development reached by these instruments, the generally negative role that some of them play or have played in Latin American economic and social development; and, above all, of the intrinsic limitations of each individual instrument. Detailed analysis of this aspect of the problem indicates that, broadly speaking, the political parties, instead of realizing the important part they can and should play in remedying the present conditions of under-development, seem to be still concentrating on the traditional struggle for control of bureaucratic posts and the ensuing benefits.<sup>29</sup> At the same time, the various capital associations, with few exceptions, are generally interested only in their particular fields and in their association affairs, and do not seem to base their actions on any over-all conception

<sup>25</sup> See Government of India, *Report of the Planning Commission on the Appraisal and Prospects of the Second Five Year Plan*, New Delhi, May 1958; United Nations, *Report of a Community Development Evaluation Mission in India*, (TAO/IND/31/Rev.1); Government of Thailand, *Summary of National Community Development Programme*, Bangkok; and USAID, *Five community development stories out of West Africa*, Department of State, Series B, vol. 1, Washington, November 1962.

<sup>26</sup> See *Report on the world social situation*, op. cit., chapter on "Social 'obstacles' to economic development", pp. 25 and 26; Raúl Prebisch, op. cit.; and *Social trends and programmes in Latin America*, op. cit.

<sup>27</sup> See J. Chonchol, *El desarrollo de América Latina y la reforma agraria*, Editorial del Pacífico, Santiago, 1964, pp. 94 and 95.

<sup>28</sup> As previously stated, in Latin America there are different conceptions of the nature and scope of public participation, and consequently a different conception of the corresponding executing instrument. Thus, action by political parties in the Government would be the instrument or channel, according to those who consider that the people participate through voting; corporations and trade unions, according to those who maintain that public participation should be at the level of capital and production; civic associations, according to those who believe that it should take place at an essentially civic and non-party level; communities and small local groups, for the many who support the international community development movement. Thus different instruments could be conceived for each of whatever versions may exist of the actual concept of public participation.

<sup>29</sup> See "*Partidos políticos y sociología electoral*" (*Memoria del VI Congreso Latinoamericano de Sociología*, vol. I, pp. 222-455, Asociación Venezolana de Sociología, Caracas, April 1961).

of the country's development. In some countries there is an obvious antagonism between groups of manufacturers and groups of importers and business men; or between the groups representing crop farmers and those representing livestock producers, and so on.<sup>30</sup> At the same time, civic associations as such do not appear to have any appreciable influence on Latin American public opinion, comparable with that exercised in the United States or in some European countries, and they normally confine themselves to promoting isolated vocational, sporting or religious activities. Moreover, with few exceptions, it seems that the "communities"<sup>31</sup> operate on an isolated and very localized level, and usually concentrate on felt needs of no great importance in terms of the whole complex of development problems. At best, their radius of action is limited by their size and their essentially local character. The same applies to municipalities, whose influence and potentialities seem to have gradually declined in Latin America throughout the republican period, until most of them have become institutions possessing little capacity for action, virtually deprived of their own revenue, and subjected to the growing administrative centralization that prevails in most Latin American countries.<sup>32</sup>

The foregoing considerations lead to the conclusion that the question of instruments of public participation in terms of accelerated development still presents serious difficulties, calling for prompt and objective examination. On the other hand, there are encouraging signs that the people of Latin America are capable of associating themselves actively and effectively with planned activities in the development field. The problem now is to establish fresh bases for promoting and channelling public participation, and determine how to make use of some of the existing channels and instruments, to meet each country's own development needs.

In the quest for these bases and ways of promoting and channelling public participation, the international community development movement provides a number of possibilities that need to be studied in the light of the real situation and development needs of the Latin American countries. In fact, the achievements of many countries in Asia and Africa, and of some Latin American countries, and the nature and scope of the principles and methods applied, indicate that this approach is highly promising. The United Nations is convinced of the usefulness and vital importance of community development,<sup>33</sup> and is confident that these programmes "may provide the answer to an important and baffling obstacle to development—the failure to enlist the support of people".<sup>34</sup> At the same time, the General Assembly declared recently that "community action is a valuable and effective instrument for achieving economic and social development" and invited "Member States to make the fullest and best possible use of community action in their efforts to promote economic and social

<sup>30</sup> See *Latin America and the United Nations Conference on Trade and Development*, op. cit.

<sup>31</sup> This word is used here in its sociological interpretation.

<sup>32</sup> See F. Albi, op. cit.

<sup>33</sup> See Economic and Social Council resolutions 390 D (XIII), 585 (XX) and 975 E (XXXVI), and General Assembly resolution 1708 (XVI).

<sup>34</sup> *The United Nations Development Decade. Proposals for action*, op. cit., p. 39.

development, especially in sectors where there is a marginally employed population and in co-ordination with land reform".<sup>35</sup> On the basis of these considerations,

<sup>35</sup> See General Assembly resolution 1915 (XVIII) of 10 December 1963 on community action.

## B. PRINCIPLES OF COMMUNITY DEVELOPMENT AS A POTENTIAL CONTRIBUTION TO LATIN AMERICA'S ECONOMIC AND SOCIAL DEVELOPMENT PLANS

### I. DEFINITION AND EVOLUTION

A number of principles and doctrines have been formulated, and various solutions tried out, in the search for a suitable approach to the key factor of participation by the people in the acceleration of development, in view of the need for systems and methods that can encourage in the people attitudes, abilities and concepts conducive to economic and social progress. For more than fifteen years, principles and activities known internationally as "community development" have been applied and perfected, especially within the framework of the United Nations, with the support of most of the Member States. According to the agreed definition, community development connotes the "processes by which the efforts of the people themselves are united with those of governmental authorities to improve the economic, social and cultural conditions of communities, to integrate these communities into the life of the nation, and to enable them to contribute fully to national progress".<sup>36</sup> In other words, they are activities based on the combined effort of the local community and the Government to remedy the existing state of under-development.

Clearly both sides of the Government-community partnership have a major role to play.<sup>37</sup> In fact here, as in all cases relating to development as a whole, the basic factors for progress would appear, in the last analysis, to be in the people themselves, in the community's own initiative and its ability to strive for its own economic and social progress, assimilate it fully, and bring it to the stage of autogeneration and consolidation. It was on the basis of this doctrine that community development acquired its characteristic features in India under the guidance of Mahatma Gandhi and Rajendra Prasad, and later became the Government's programme for 1952.<sup>38</sup> It was on the same basis that Britain promoted community development in some of its African colonies, as their independence approached, in an effort to remedy the long-standing exclusion of the people from the nation's economic life. The new Government of the Philippines resorted to the same type of community development in the country's reconstruction after the Second World War. The same is true of Latin America. From 1952 on com-

<sup>36</sup> See *Community development and related services, Official Records of the Economic and Social Council, Twenty-fourth Session, Annexes*, agenda item 4, document E/2931, annex III, para. 1.

<sup>37</sup> The Spanish version of the United Nations definition stating that people's efforts are "added" to the Government's might seem to imply that the initiative belongs to the Government, the people's efforts being merely complementary.

<sup>38</sup> See M. K. Gandhi, *Constructive Programme. Its Meaning and Place*, New Delhi, 1941; R. Prasad, *Constructive Programme. Some Suggestions*, Narajivan Publishing House, Amedabad, 1942; and *Report of a Community Development Evaluation Mission in India*, TAO/IND/31/Rev.1, New York, 2 June 1960.

there now follows an analysis of the scope, and content of community development, in the light of past experience and future prospects for its use in Latin America as an instrument for the promotion and channelling of public participation in the acceleration of development.

community development was included in the programme of the Puerto Rican Government, and in 1955 became officially a part of Jamaica's Farm Development Programme. In Venezuela it was introduced "in order to eradicate the paternalist conception of the Government and the State from the minds of the Venezuelan people, whose expectations were all centred on action by the State".<sup>39</sup> Action has been taken by other Latin American countries on the same lines: in 1958 the Colombian Congress enacted Law No. 19, of which article 22 established "community action" in that country; the Government of Chile and the United Nations signed the Agreement on Community Development Activities in Puente Alto<sup>40</sup> in June 1962, and agreed to establish an experimental project in the department of Arica; the Government of Peru established the National Public Co-operation Programme and a corresponding Inter-Ministerial Executive Committee by the Supreme Decree No. 37-F of August 1963.<sup>41</sup> Lastly, all the Latin American countries voted for General Assembly resolution 1915 (XVIII) on community action in December 1963, in pursuance of those same principles.

In terms of content, characteristics and scope, community development is essentially a working method designed to permit the pooling of resources by the people and the Government in order to make use of those resources. Since its primary aim is to help to improve the economic, social and cultural conditions of communities, to integrate these communities into the life of the nation, and to enable them to contribute fully to national progress, it can obviously be regarded as a means of accelerating development. As a system, it is founded on certain sociological principles and axioms—which are not always clearly defined in the different countries and projects—and as a means is related to the solution of specific problems of the community concerned, in the field of the public, community and social welfare services, and in certain areas of production.

A detailed analysis of the background of community development and of the various forms it takes, in Asia and Africa, as well as in Latin America, indicates community development does not have its own specific and clearly defined doctrine and methods. However, even

<sup>39</sup> Rómulo Betancourt, President of Venezuela, in a speech delivered at the Teatro Nacional, Caracas, on 15 January 1964, on the occasion of teacher's day.

<sup>40</sup> See the Agreement on Community Development Activities, concluded between the Department of Agriculture, the Department of Primary Education and Teacher Training, and the National Health Service of Chile, on the one hand, and the United Nations on the other. See also *Desarrollo de la Comunidad en Chile*, Santiago, 1964, preliminary study by the United Nations.

<sup>41</sup> See Inter-Ministerial Executive Committee of Public Co-operation, *Cooperación popular*, Lima, 1963.

though each programme has its own particular aims, places special emphasis on certain aspects, and claims to have its own methods, they all have a common basis: faith in the existing and potential capacity of the individual and the community, and the conviction that it can be consciously put to work, cultivated and directed into channels of economic and social progress. As regards the emphasis of programmes, community development began to operate in the thirties in the form of "rural reconstruction measures" in India, "rural development measures" in Ceylon and "mass education" in Burma, and later as "national reconstruction" in the Philippines and China (Taiwan).<sup>42</sup> In Latin America, possibly one of the most interesting developments was the "cultural missions" in Mexico in the twenties, not extended to most other Latin American countries in an equally flexible form until the fifties. Thus, while in Colombia the basic element in these programmes is participation by the people, or "community action",<sup>43</sup> in social infrastructural construction works, in Venezuela it is their participation in development programmes and in land reform.<sup>44</sup> In Ecuador, Peru and Bolivia such activities have been carried out since 1962 under the name of "integration of the indigenous population", sponsored and promoted by the International Labour Organisation with the co-operation of other United Nations specialized agencies,<sup>45</sup> Brazil, with its vast territory, appears to provide examples of all types of community development.<sup>46</sup> Activities in Paraguay seem to consist of economic contributions by the people in the form of "offerings" that are constantly being organized to settle any important question connected with community facilities.<sup>47</sup> In Chile they seem to aim at bringing about, through experimental projects, co-ordinated action between the health, education and agricultural services.<sup>48</sup>

Yet all these programmes—particularly those directly or indirectly receiving United Nations technical assistance<sup>49</sup>—are based partly or wholly on unchanging concepts and procedures, or sociological and political common denominators, that could form the basis for an

<sup>42</sup> See *Report by the Secretary-General on evaluation of United Nations technical assistance activities in the field of rural community development* (E/CN.5/373), paras. 104-107; and John P. Lewis, *Quiet crisis in India*, The Brookings Institution, Washington, D.C., 1962.

<sup>43</sup> See Government Department of Community Action, *El Programa Nacional de Desarrollo de Comunidad de Colombia*, presented to the United Nations Workshop on Community Development, Bogotá, December 1962; J. Martínez Espinoza, *La acción comunal como programa de gobierno, bases de metodología aplicada a la vivienda*, Fundación Universidad de América, Bogotá, 1960.

<sup>44</sup> See *Report of a Mission on Community Development to Venezuela* (TAO/VEN/15); and *El programa Nacional de Desarrollo de la Comunidad de Venezuela*, CORDIPLAN, 1963.

<sup>45</sup> See *The Andean Programme*, ILO, Geneva, 1961; and J. Rens, "The Andean Programme", in *International Labour Review*, vol. LXIV, No. 6, December 1961.

<sup>46</sup> See *Desarrollo de la comunidad en Brasil*, Santiago, Chile, 1964, preliminary study by the United Nations.

<sup>47</sup> See *Community development in Paraguay* (study by United Nations consultant, Caroline F. Ware, in preparation).

<sup>48</sup> See Francisco Rojas, (Technical assistance expert), *Informe final sobre desarrollo de la comunidad en Chile*, Santiago, January 1964.

<sup>49</sup> See *Bases, fines y medios del desarrollo de la comunidad* (ST/ECLA/Conf.18/L.3) prepared by the United Nations Bureau of Social Affairs.

attempt to identify an underlying doctrine for community development.<sup>50</sup>

One programme applies the sociological principle that individuals and communities possess an inherent capacity to better their lot. This ability is generally in a latent form in large sectors of the population of developing countries, and in many economically marginal individuals and communities in the more advanced countries. To identify these energies, intensify them and put them constructively to work is the essential province of community development. All such action should, of course, be in line with each community's particular characteristics and with previously established goals.

Another doctrine invoked, complementary to the first, is that these energies can be more easily freed and channelled once individuals and communities become conscious of their capacity and feel that their fate is in their own hands. Community development efforts should therefore be aimed essentially at creating such awareness, and the necessary climate of trust and self-confidence. This requires the discarding of the traditional concepts of charity and paternalism that prevail in many spheres of social action. The aim must be to identify and strengthen individual and community values, instead of neglecting or supplanting them.

Another programme assumes that, broadly speaking, there is a direct and reciprocal relationship between the complex of attitudes, motives and concepts of a community and its general stage of development. This often results in a vicious circle which obstructs most attempts to expedite development. This vicious circle will have to be broken in the developing countries by a proper approach to the whole outlook of individuals and of the community. If a community is to take an active and conscious part in any development programme it will have to adopt more positive attitudes and motives and more favourable concepts and beliefs regarding the physical, economic and social world. This implies a methodical attack on the social inertia of the community as a whole, and the setting in motion of a positive chain reaction.<sup>51</sup>

One programme is based on the sociological principle that the social changes affecting individuals and communities form a complex and interrelated process, and not merely a series of isolated and sporadic phenomena. Consequently, the freeing and enlarging of the energies and capabilities of a community must be a technically planned and organized process. This means that community development should call on all the resources of the social sciences and of technology, and that its activities must be planned within the broad context of over-all development.<sup>52</sup> According to this view, working with the community is an inter-disciplinary activity, linked with other efforts to accelerate the economic and social development of the country as a whole.

Another programme is based on the concept of the association of people and Government as a working method for seeking solutions to development problems. This means that the people act freely and deliberately as a member of a partnership whose aim is to stimulate

<sup>50</sup> See Rubén Utria, *op. cit.*, p. 31.

<sup>51</sup> See Eric Carlson, *Fomento de comunidades*, ESAPAC, San José, Costa Rica, 1957, p. 12.

<sup>52</sup> See *Community development and national development*, *op. cit.*

development, that each of the two partners makes a definite contribution, and that a common interest is the basis for the unity of action that must distinguish such efforts. The communities are expected to contribute their existing and potential resources, and in particular a progressive attitude, a spirit of continuing co-operation, voluntary work and other specific contributions according to the type of the programme concerned. The Government's contribution should be a sense of purpose and a readiness to serve the community, and certain technical services. The communities' contribution ranges from endorsement of the development plans and projects to direct participation in the building of roads, schools, water supply and sewerage systems, irrigation works, laying out of parks, etc.; while the Government's contribution includes all services that are the direct responsibility of the public sector such as those in the fields of agriculture, nutrition, education, health, literacy, home economics, vocational training, and formation of co-operatives, and the social services, as well as the training of promoters, and research and experiment in connexion with the administration, programming and promotion of the technical services required by community development.<sup>53</sup>

The argument has also been advanced that the local community may constitute a suitable framework for the freeing and development of the existing and potential resources of the individual and the community referred to above. The "community of interests" and of development conditions, and the "face-to-face" relations, that are typical of the local community, make it a suitable unit of operation for promoting development through the freeing and guidance of the people's energies.<sup>54</sup> One of the most complex problems in speeding up a country's economic and social development is the social inertia resulting from the exclusion from economic life of the "base" communities, and the difficulty that those at high levels of government and of development promotion have in reaching such communities and operating effectively in them. Community development practices permit the communities and the areas in which they live to acquire more social mobility and dynamic momentum, and thus makes it easier for them to participate in the country's over-all growth. This special characteristic of the local community is closely linked to the concept of local government, and is consequently included in community development as one of the basic elements in promoting and administering progress at the local level.<sup>55</sup>

On the doctrinal basis of these and other concepts and procedures, community development programmes spread throughout the world as a declaration of faith in the capacities of the people themselves, and as a working system of partnership between the Government and people, through the many rural development programmes embarked on by the Asian and African nations shortly after their independence. Thus thousands of villages in such countries as India, Pakistan, the Philippines, Indonesia, Ceylon, Burma, Iran, Cambodia and Thailand

<sup>53</sup> See *Community development and related services*, op. cit., paras. 18 et seq.

<sup>54</sup> The *ad hoc* Group of Experts which met in New York in February 1963 formulated recommendations for expanding this concept. See *Community development and national development*, op. cit., para. 14.

<sup>55</sup> See *Community development and local government*; and *Public administration aspects of community development programmes* (United Nations publications).

were mobilized on the basis of community development principles. A process of changing attitudes, motives and concepts began to take place, while a large number of houses, schools, roads, irrigation canals, bridges, water supply and sewerage systems and even hydraulic installations were built through this association between the Government and the community.

As a result of the first successes, these community development principles and practices were transferred to the United Nations sphere of operations in 1948, through a number of resolutions (already referred to) by the General Assembly and the Economic and Social Council. Since then their evolution has been encouraged and supported by the Organization through the provision of technical and financial assistance to many countries, and in 1962 activities in this field involved fifty-one experts and covered thirty-one member States. In addition there was an intensive publicity programme on a world scale.<sup>56</sup> In Latin America practically all the countries in the region had embarked on community development activities, in numerous pilot projects, by the end of the fifties. The United Nations, which in 1951 received only one request for technical assistance in this field, now provides consultants and other forms of technical assistance to twelve countries of the region (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, Uruguay and Venezuela). In the past fifteen years there have been a great many seminars, workshops and international and regional conferences on community development and three regional vocational training centres in this field are currently operating, in three continents—CREFAL in Mexico, a centre in the United Arab Republic and another in Bangkok. UNESCO has made an equally important contribution through its fundamental education programmes.

## 2. COMMUNITY DEVELOPMENT TRENDS IN LATIN AMERICA

In one way or another all the Latin American countries have tried to put the principles of community development into practice. Most Latin American rural communities have a strong tradition of mutual help and co-operation in work and in tackling problems of common interest.<sup>57</sup> Up to a point this has prepared the ground for experiments wherever an attempt has been made to apply the principles and methods of the movement. Moreover, since 1951, the United Nations has been disseminating these principles and has given direct or indirect technical assistance to the countries that have requested it. In addition fellowships have been awarded to a number of Latin American professionals for study tours to observe the programmes being carried out in Asia, Africa and the Middle East, and a series of workshops and international and regional seminars have been held, as well as training courses in CREFAL.<sup>58</sup> The

<sup>56</sup> See *Evaluation of United Nations technical assistance activities in the field of rural community development*, op. cit.

<sup>57</sup> This is clearly reflected in the *convite* of the Caribbean countries, the *minga* or *minca* of the Andean Indians, the *mutirão* in Brazil, and other practices more widely spread throughout Latin America, such as the *fajina*, the *mano prestada*, *ayuda*, and others.

<sup>58</sup> This is the Regional Fundamental Education Centre for Community Development in Latin America which, under the auspices of UNESCO and with the co-operation of the United Nations and other international organizations, has been active for the last ten years in Pátzcuaro, Michoacán, Mexico.

Organization of American States began its activities in this field with a series of regional seminars in 1951 and 1952, and has continued to promote the dissemination of community development principles in the region through the exchange of information by means of its publications<sup>59</sup> and training<sup>60</sup> programmes.

Community development was extended to nearly every country, with the support and guidance of international bodies, and in most cases on the initiative of social workers. Ten countries, (Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru and Venezuela) have been or are now being visited by United Nations advisers, and others (Paraguay, Uruguay, Trinidad and Tobago, and British Guiana) are submitting the necessary requests. Regional advisers have been seconded to the Economic Commission for Latin America (ECLA), to the Caribbean area and to the Andean Indian Programme. Four countries—Colombia, Ecuador, Peru and Venezuela—have raised these activities to the level of national government programmes, although with differences as to concept and execution, and to the working methods and techniques adopted.

A United Nations Evaluation Mission sent at the end of 1963 has singled out *Venezuela* as offering the best field of experience on a nation-wide scale, and as providing the most receptive climate for the idea of community development, both in the public and private sectors and among the people as a whole.<sup>61</sup> *Venezuela* has a national programme, sponsored by the President of the Republic, and others carried out by state agencies or the private sector.<sup>62</sup> The national programme was begun on an experimental basis in 1960 as part of the activities of the Central Co-ordination and Planning Office of the Office of the President, and has been associated from the outset with the objectives and targets of the general development plan and of land reform. Since then its sphere of action has been gradually widened, and it is playing an increasingly important part in the life of the country, especially in the rural areas. It is also progressing with the work of channelling and co-ordinating government services and activities at the local level. By the end of 1963 it had been extended to sixteen States and was estimated to have a direct influence on 692,667 people in a total of 771 communities.<sup>63</sup> In 1962, in order to encourage and finance community development activities, the Government created the Foundation for Municipal Improvement and Community Development which serves as a national system for distributing funds from abroad, and is now undertaking extensive activities in promotion and assistance.<sup>64</sup> The Ministry of Health and Social Welfare conducts programmes, through

its Divisions of Community Development, Social Service and Malaria Studies, in various parts of the country, and there are other programmes more local and specific in scope. The Movement for Community Development,<sup>65</sup> founded in September 1962, with the Distrito Federal as its field of action, concentrates on urban community works, clean-up campaigns, cultural and sports activities and, in particular, on promotion and organization in the community in connexion with the slum clearance programmes carried out by the District Reconstruction Committee. Then there is the work of the Banco Obrero in educating and adapting the people living in its own housing projects, especially the big apartment blocks. It has been particularly successful in the Caracas districts of "23 de Enero", "Alberto Ravell" and "Simón Rodríguez". The idea of community development has also met with widespread support in the private sector. The most interesting of this sector's programmes is the Venezuelan Institute for Community Action (IVAC), which operates on a national scale, and concentrates on the training of rural leaders.

Community development has also been successfully popularized in *Colombia*, where notable progress has been made. Although some pilot programmes had been carried out before 1958, a few of which were internationally known,<sup>66</sup> it was not until that year that the Government and Congress resolved to include its principles and methods in the government plans under the title of "community action". Act No. 19 of 1958 on administrative reforms and decrees No. 1761 of 1959 and 1634 of 1960 provided the necessary faculties for, and officially recognized, the participation of the community in the solution of problems of community interest, in collaboration with the Government. In accordance with these legal provisions, and with the line that has been followed by the Colombian programme, the aim is to encourage the people to take part in the construction of housing, schools, water supply and sewerage systems, local roads, health centres, parks and other facilities.<sup>67</sup> It is applied in most parts of the country, by various regional promoters holding official appointments in the capitals of the different Departments, and a number of local Community Boards created by law. These Boards control and supervise certain public services (article 22 of the Act) and direct the efforts of the people living in each municipality towards co-operation in activities that conduce to the social and economic development of the population (article 23). For this purpose, it is laid down that the Government shall provide technical assistance, establish subsidies and organize courses and institutions to train personnel for promoting the formation of Community Action boards and directing their activities (article 24). Some Departments, and the Distrito Especial of Bogotá, have their own activities, side by side with the national programme. Thus, a number of the projects included in the general development

<sup>59</sup> See *Organización y desarrollo de la comunidad (Colección de Estudio)* (2 vols., published jointly by the United Nations, the OAS and UNESCO, Washington, D.C., 1954).

<sup>60</sup> Project 208: training for community development in indigenous communities, in Bolivia and Mexico.

<sup>61</sup> See *Report from a community development mission to Venezuela*, op. cit.

<sup>62</sup> See *Desarrollo de la Comunidad en Venezuela*, study being prepared by the United Nations (ECLA Division of Social Affairs).

<sup>63</sup> CORDIPLAN, *El programa de desarrollo de la comunidad en Venezuela*, Caracas, 1963.

<sup>64</sup> See *Informe sobre el Programa de Desarrollo de la Comunidad en Venezuela*, submitted by CORDIPLAN to the second annual meeting of the Inter-American Economic and Social Council, Caracas, October 1963, p. 86.

<sup>65</sup> See *Filosofía, procedimientos y alcances del Movimiento Pro-Desarrollo de la Comunidad del Distrito Federal*, Caracas, September 1963.

<sup>66</sup> See O. Fals-Borda et al., *Acción comunal en una vereda colombiana*, sociological monograph, Universidad Nacional, Bogotá, 1959, and CINVA, *La acción comunal en la construcción de escuelas rurales. Una experiencia en Tabio*, Bogotá, 1959.

<sup>67</sup> See J. Martínez Espinosa, op. cit., and *Informe sobre el programa nacional de desarrollo de la comunidad en Colombia*, Community Action Division, Ministry of the Government, Bogotá, November 1962.

plan for joint execution by the people and the Government, especially in the field of community and welfare services, have been carried out by Community Action.<sup>68</sup> Some decentralized State agencies, such as the Land Credit Institute, the Institute for Municipal Development and the National Coffee Growers Federation apply community development principles in a variety of programmes. The private sector and the Church also carry out similar activities in many parts of the country.

In Ecuador community development activities have been associated for a number of years with the Andean Programme. This Programme for the indigenous population is primarily intended to improve their level of living, integrate them in their respective communities, raise their hopes in the future and endow their countries with the full potential of a human mass which has up to now remained untapped.<sup>69</sup> Since April 1948 the principles and methods of community development have been incorporated in this Programme as operational tools, this task being entrusted to a United Nations adviser. At the beginning of 1963 the Government decided to draw up a national programme based on those principles, to serve as an instrument for the General Development Plan.<sup>70</sup> The Plan, which was given technical assistance by the United Nations and ECLA, and funds from the Inter-American Development Bank,<sup>71</sup> was first put into effect at the beginning of 1964. The former ILO Andean Mission was converted for the purpose into the Andean Mission for Ecuador, by decree No. 193 of 30 January 1964 and it is hoped that once the initial stage of administrative reorganization is over, it will become operative immediately. In broad terms the aim of the new programme for Ecuador will be to train and organize the rural population for social and economic development, within the context of rural development. To this end it embodies a whole complex of activities to promote organization and education for development, increased production and a higher level of living. It will function through the medium of action bases and areas, and will proceed through successive stages until it has reached the bulk of the rural population. The principles and methods of community development provide the basic concepts and methodology of the programme, and its basic aim is to achieve an increase of over 60 per cent in the tempo at which the minimum social changes needed are taking place, in order to expedite and give direction to the economic development of the country as a whole. The Ecuadorian programme is notable in that it was conceived and framed in advance as part of a general development plan, with a firmly established administrative and financial structure.

In Peru<sup>72</sup> highly significant events have been taking place recently in the field of community development.

<sup>68</sup> See Colombian Development Plan, op. cit.

<sup>69</sup> See International Labour Office, *The Andean Programme*, op. cit.

<sup>70</sup> See the Government of Ecuador's general development plan, *Plan General de Desarrollo, Programa de desarrollo rural*, vol. IV, Quito, 1963; and Economic Planning and Co-ordination Board, *Primer borrador del programa nacional de desarrollo de la comunidad*, Quito, 1963.

<sup>71</sup> See Economic Planning and Co-ordination Board, *Contrato de Préstamo entre el Banco Interamericano de Desarrollo y la República del Ecuador. Préstamo No. 55-TF-EC*, Quito, 1 October 1963.

<sup>72</sup> See *Community development in Peru* (preliminary study by Caroline F. Ware, United Nations consultant), Santiago, 1964.

In 1954 a number of projects for the indigenous communities were launched under the Andean Programme and continual use was made of community development principles and methods, in one form or another. But in August 1963 the Government decided to institute a national programme based on participation by the people to be termed "public co-operation", and to that end set up the Inter-Ministerial Executive Committee for Public Co-operation, by Supreme Decree No. 37-F of 17 August 1963. The programme has been defined as a movement for community promotion designed to arouse, encourage and organize the constructive forces of the people in every community in Peru, by using their own traditional community spirit, and gradually and democratically guiding them in the direction of progress and the creation of new forms of communal living and productive work.<sup>73</sup> The programme is put into effect through the provincial centres known as "basic centres" (144 of these are planned), provided with building equipment and tools, and a group of technical specialists (an agronomist, an engineer, a home economist and a community development promoter) whose task is to act as social promoters and technical consultants, and departmental centres, known as "main centres" (27 are planned), with heavy equipment and a larger technical staff, including, in addition to those already mentioned, specialists in co-operatives, public health, public administration, adult education, handicrafts, and anthropology. These operational centres have been set up to give technical assistance to the 1,500 district councils and communities that have requested it, and to serve as nuclei for the promotion of economic and social development and to canalize public participation. The programme provides for the participation of university students and volunteers who are expected to go to the rural areas during their holidays, in particular to act as advisers on administrative matters to the districts, the provincial councils and the provincial programming boards.<sup>74</sup> The programme became fully operative at the end of 1963, and the Government is trying to obtain funds from abroad to finance its activities. They will make it possible to carry out a large volume of social infrastructural works and to speed up economic development, especially in the countryside. Perhaps the most striking features of the programme are the enthusiasm and untiring efforts of the technical teams, the unfailing response of the rural communities, the impression of a general mobilization of the whole country in support of Peru's general development, and the official support received from the Government. Despite the programme's short history and its financial restrictions, its achievements have already made it one of the major examples of community development activities in Latin America. In some departments, such as Cuzco and Puno, the programme is being carried out in a strikingly energetic way, and a large number of communities are executing a systematic programme for the building of schools, roads, irrigation channels, handicraft centres, etc. In Cuzco the number of schools built during 1964 represent an average of one a day. At the same time earlier programmes relating to com-

<sup>73</sup> See Inter-Ministerial Executive Committee for Public Co-operation, *Cooperación popular: Bases del Programa de Desarrollo Comunal*, Lima, 1963.

<sup>74</sup> During the vacation at the end of 1963, 1,200 volunteers took part, visiting 543 villages throughout Peru.

munity development are still operating. One of these is the PNIPA, which in 1959 combined the activities of the Andean and Vicos Programmes with other elements, and which follows the aim of integrating and co-ordinating promotional activities relating to production, agriculture, nutrition, health, education, social services and community development. Within this programme the operational centres of the Andean Programme fulfil the same role as in Ecuador.<sup>75</sup> The Vicos Programme is a pilot project run by the Department of Anthropology of Cornell University in co-operation with a number of Peruvian organizations; its operational centre is a rented *hacienda* where the indigenous inhabitants are undergoing a scientific process of accelerated social change. Help is given to the community in improving its methods of farming, educating the children, raising the levels of health and nutrition, organizing its own government and, lastly, in buying land for community use.<sup>76</sup>

In *Bolivia*<sup>77</sup> community development has also been linked up with the Andean Programme, and has followed this same line since 1953. In January 1962 the Rural Development Plan was put into effect. This has replaced the international Andean Programme, and is intended "to raise substantially the level of living of the Bolivian peasantry and to integrate the half million peasant families who farm the Altiplano and adjacent valleys for mere subsistence into a market economy which will provide basic foods for the urban population, and will, in turn, constitute a market for manufactured products".<sup>78</sup> Both the broad approach of the Plan and the kind of working methods adopted for many of its activities indicate that the principles of community development have and will have a vital part to play in this country. It should also be borne in mind that the concept of participation by the people has been one of the cornerstones of land reform, and, in general, of the radical changes that have taken place in Bolivia since 1952.

In *Brazil*,<sup>79</sup> despite the absence of a national programme, the principles of community development are constantly applied and have good prospects of success. They were first introduced in 1940 in some of the activities of the Special Public Health Service (SESP), of the Brazilian Rural Credit and Aid Association (ABCAR) and of the Rural Social Welfare Service of the Catholic Church, and have been disseminated and applied in a number of individual programmes. Nearly all the social welfare schools have included community development in their curriculum, and both the Superintendency for Land Reform (SUPRA) and the Superintendency for the Development of the Nordeste (SUDENE) are applying the idea in one way or another.

*Paraguay*<sup>80</sup> has no national programme either, and although some government services and a few social

programmes may be said to contain elements of community development, it is difficult to single out the activities that can strictly be regarded as community development. The closest approximation to community development is the nutrition programme (PAEN), carried out jointly by the Ministries of Education, Agriculture and Health, with active participation by a number of communities and technical and financial assistance from international organizations. Public participation is, however, a long-standing tradition, particularly for financing projects of common interest, when it takes the form of "offerings" by the people. In recent months direct interest has been taken in the application of the principles and methods of community development, as evidenced by the request for technical assistance in community development which the Government has already submitted to the United Nations.

In recent years these principles and methods have been applied in *Chile*<sup>81</sup> in a number of separate projects, and in particular in the governmental programme for co-ordinated action in the fields of health, education and agriculture which is being carried out in Puente Alto, a village near Santiago,<sup>82</sup> and the regional programme being carried out by the Arica Development Board. The concept of public participation is, however, being applied in numerous aided self-help housing programmes all over the country, and in certain health campaigns run by the National Health Service.<sup>83</sup> Community development principles have reached a wide audience at professional and academic levels, and both in government circles and in certain civic organizations there is keen interest. Since 1961 the Government has received technical assistance from the United Nations, and an Inter-Ministerial Committee has been set up to direct and co-ordinate the execution of the Puente Alto programme.<sup>84</sup> Probably the most interesting programme, in terms of scope and results, is that carried out by the Arica Development Board, conceived and applied as part of the development programme for the Department of Arica. Outstanding work is also being done by the Institute for Rural Education, which is holding training courses for young agricultural workers at fifteen centres in different parts of the country. Some 5,000 have now been trained, and 200 of them are working to establish small rural co-operatives, organize neighbourhood groups to deal with problems of common concern, develop family orchards and encourage the formation of cultural groups. The Institute is also active in the towns. In addition there are several programmes in the private sector. Two of these, the *Techo* and *Invica* programmes, promote consumer, savings, credit and housing co-operatives, and establish centres of activity and other social welfare organizations. Important work is also being done by the Corporation of Community Development Centres (CENDES), which co-operates in activities concerned with the progress of marginal com-

<sup>75</sup> See *Annual report on the Andean Indian Programme*, Andean Indian Programme, Regional Office, 1963.

<sup>76</sup> See A. R. Holmberg, *Changing community attitudes and values in Peru: a case study in guided change*, Council on Foreign Relations, New York, 1960, pp. 63-107.

<sup>77</sup> See Caroline F. Ware, *Community development in Bolivia*, Santiago, Chile, 1964, a preliminary study by the United Nations.

<sup>78</sup> See Government of Bolivia, *Plan Nacional del Desarrollo Rural*, La Paz, 1963, p. 11.

<sup>79</sup> See *Desarrollo de la Comunidad en Brasil*, Santiago, Chile, 1964, preliminary study by the United Nations.

<sup>80</sup> See Caroline F. Ware, *Community development in Paraguay*, Santiago, Chile, 1964, preliminary study by the United Nations.

<sup>81</sup> See *Desarrollo de la Comunidad en Chile*, Santiago, Chile, 1964, a preliminary study by the United Nations.

<sup>82</sup> See Francisco Rojas, *op. cit.*

<sup>83</sup> See *Informe sobre el programa de desarrollo de la comunidad en Chile*, a report submitted by the National Health Service to the United Nations meeting on the programming and evaluation of community development, Quito, December 1962.

<sup>84</sup> See *Convenio entre las Secretarías de Salud, Educación y Agricultura y las Naciones Unidas para el programa de desarrollo de la comunidad en Puente Alto*, *op. cit.*

munities. Also worthy of note is the project in the Punitaqui area, which is shortly to receive United Nations help through the World Food Programme, and other projects now in course of organization in Chiloé.

In *Argentina*<sup>85</sup> some isolated efforts are being made in a few provinces by social welfare workers. One is the Programme for Agricultural Extension Services and Community Development, sponsored by the National Institute of Agricultural Technology (INTA). Another is the Andean Plan, in the Jujuy Puna; this is connected with the ILO Andean Programme, and is the only community development programme that enjoys official government support. However, for a number of years there has been large-scale sociological research on community development and social change, and university extension services provided by the Universities of Buenos Aires, La Plata and the Littoral, Rosario.

Community development has received little attention in *Uruguay*.<sup>86</sup> A few activities in the public and private sectors have adopted some of its principles and methods, but in a piecemeal way and usually with marked em-

<sup>85</sup> See *Community development in Argentina*, Santiago, Chile, 1964, a preliminary study by the United Nations.

<sup>86</sup> See *Community development in Uruguay*, Santiago, Chile, 1964, a preliminary study by the United Nations.

phasis on the special branch of the person sponsoring them. But in September 1963 the Government set up the National Commission for Community Action (CONAC), to operate as an inter-agency unit under the Ministry of Education and Social Welfare. Its aim is to formulate a national plan for community action to raise the level of living of the social groups with serious under-development problems and to integrate them into the national community. This plan will probably be drawn up and executed as an instrument of the General Development Plan being prepared by the Investment and Economic Development Commission (CIDE). The Economic Commission for Latin America (ECLA) has already begun to give technical assistance to the Government in relation to the community action programme.

In Latin America,<sup>87</sup> as in other regions, there has been no attempt at an over-all assessment of the status, trends and achievements of community development. This would be difficult because all the programmes are fairly new and little systematic data is available. However, the existing scanty data suffice to show that all the Latin American countries have tried to apply these principles in one way or another (see table 1).

<sup>87</sup> See *Community development and national development*, op. cit., para. 7.

*TABLE 1 APPEARS OVERLEAF*

Country	Programme or activity, by name	Sector (Public, private, semi-public)	Operational level (National, zonal, local)	Executing agency and administrative headquarters
Argentina .....	(1) Andean plan Puna Jujuy	(1) Public	(1) Zonal	(1) Executive, Province of Jujuy. National Department for Indigenous Affairs. Federal Government
	(2) National Institute of Agricultural Technology	(2) Public	(2) National	(2) National Secretariat of Agriculture and Livestock
Bolivia .....	(3) National rural development plan	(3) Public	(3) National	(3) Ministry for Rural Affairs
Brazil .....	(4) SUPRA	(4) Public	(4) National	(4) Ministry of Agriculture
	(5) SUDENE	(5) Public	(5) Zonal	(5) Federal and state Governments
	(6) SAR	(6) Private	(6) Zonal	(6) Catholic Church
Chile .....	(7) Puente Alto project	(7) Public	(7) Zonal	(7) Ministries of Agriculture, Education, and Health and Social Welfare
	(8) Arica project	(8) Public	(8) Zonal	(8) Arica Development Board
	(9) Rural Education Institute	(9) Public	(9) National	(9) Rural Education Institute
	(10) TECHO	(10) Private	(10) Local	(10) TECHO
Colombia .....	(11) Community action	(11) Public	(11) National	(11) Ministry of the Interior
	(12) Distrito Especial community action	(12) Public	(12) Local (districts)	(12) Municipality of Bogotá D.E.
	(13) Community action, Department of Cundinamarca	(13) Public	(13) Zonal	(13) Community Action Division
	(14) ICT (aided self-help housing)	(14) Public	(14) National	(14) ICT (decentralized)
	(15) INSFOPAL (rural water supply and sewerage)	(15) Public	(15) National	(15) INSFOPAL
	(16) Coffee-Growers Federation	(16) Semi-public	(16) Zonal	(16) National Federation of Coffee Growers
Ecuador .....	(17) National rural development programme	(17) Public	(17) National	(17) Ministry of Social Security and Labour
Paraguay .....	(18) PAEN	(18) Public	(18) National	(18) Inter-Ministerial Health, Agriculture and Education Committee
Peru .....	(19) Public co-operation	(19) Public	(19) National	(19) Presidency of the Republic
	(20) Andean programme <sup>c</sup>	(20) Public	(20) National	(20) ILO Andean Mission
	(21) Vicos-Cornell <sup>c</sup>	(21) Private <sup>d</sup>	(21) Local	(21) Vicos-Cornell
Uruguay .....	(22) Community action	(22) Public	(22) National	(22) CONAC (Ministry of Education and Social Welfare)
Venezuela .....	(23) National community development. Ministry of Health	(23) Public	(23) National	(23) CORDIPLAN, Presidency of the Republic
	(24) Organization and community development. Ministry of Health.	(24) Public	(24) National	(24) Ministry of Health and Social Welfare
	(25) Community and municipal development	(25) Semi-public	(25) National	(25) Foundation for community and municipal development
	(26) Community action (IVAC)	(26) Private	(26) National	(26) IVAC
	(27) Movement for community development	(27) Semi-public	(27) Zonal	(27) Assembly of neighbourhood and parish associations (D.F.)

SOURCE: ECLA, Division of Social Affairs.

<sup>a</sup> In course of processing.

<sup>b</sup> This covers only local roads, rural sewage systems and health clinics.

<sup>c</sup> Now part of PNIPA.

## DEVELOPMENT PROGRAMMES AND ACTIVITIES

<i>Scope of programme</i>	<i>Approximate number of people affected</i>	<i>Legal basis</i>	<i>Funds mobilised</i>	<i>Official Government sponsorship</i>
(1) Integration of indigenous population (ILO)	(1) 30 000	(1) National decree No. 13411 of 1962	(1)	(1) Yes
(2) Development of agricultural research and extension services and improvements in rural life	(2)	(2) Act. No. 21680 of 4 December 1956	(2)	(2)
(3) Rural development	(3) 3 000 000	(3) Supreme Resolution No. 112132 of 26 January 1962	(3) \$3 million <sup>a</sup>	(3) Yes
(4) Land reform	(4)	(4) Decree No. 11 of October 1962	(4)	(4) Yes
(5) Infrastructure investment	(5)	(5) Decree No. 3692 of December 1959	(5) 122 000 million cruzeiros (1963)	(5) Yes
(6) Socio-economic instruction and organization	(6)	(6)	(6)	(6)
(7) Inter-agency co-ordination	(7)	(7) Inter-Ministerial Agreement with the United Nations of 12 June 1962	(7)	(7) Yes
(8) Urban and rural community organization and development	(8)	(8)	(8)	(8) Yes
(9) Rural education	(9)	(9)	(9)	(9) Yes
(10) Organization of marginal communities	(10)	(10)	(10)	(10)
(11) Social infrastructural works	(11)	(11) Act 19 of 1958	(11) 47 218 437 (1963) <sup>b</sup>	(11) Yes
(12) Social infrastructural works	(12) 300 000	(12) Agreement No. 4 of 1959	(12)	(12) Yes
(13) Social infrastructural works	(13)	(13)	(13) 570 300 pesos (1963)	(13) Yes
(14) Aided self-help for housing construction	(14) 80 748	(14)	(14) 290 900 pesos (1963)	(14) Yes
(15) Aided self-help for building water supply and sewage systems	(15) 38 053	(15)	(15) 2 000 637 pesos (1963)	(15) Yes
(16) Rural development	(16)	(16)	(16)	(16) Yes
(17) Rural development	(17)	(17) Act No. 139 of January 1964	(17)	(17) Yes
(18) Co-operative programme for nutrition	(18) 200 000	(18) Inter-Ministerial Agreement with UNICEF, 1959 and 1962	(18)	(18) Yes
(19) Infrastructural works	(19)	(19) Decree No. 37 of February 1963	(19) 15 955 311 soles and \$11 million <sup>a</sup>	(19) Yes
(20) Integration of indigenous peoples	(20)	(20) Agreement between Government and ILO, 1954	(20)	(20) Yes
(21) Guided social change	(21)	(21)	(21)	(21)
(22) Help for marginal groups to raise their level of living	(22)	(22) National Government, 24 September 1963	(22)	(22) Yes
(23) Economic and social development and land reform	(23) 692 667 <sup>e</sup>	(23) Decree No. 492 of 30 December 1958 <sup>f</sup>	(23) 17 981 374 bolivars (1963)	(23) Yes
(24) Rehabilitation and social welfare	(24)	(24)	(24)	(24) Yes
(25) Community and municipal development	(25)	(25) Decree No. 711 of 12 March 1962	(25)	(25) Yes
(26) Training of rural leaders	(26)	(26) Act of 5 April 1962	(26)	(26)
(27) Urban community works	(27)	(27) Act of September 1962	(27)	(27) Yes

<sup>a</sup> With the co-operation of Peruvian state agencies.<sup>e</sup> In October 1963.<sup>f</sup> Relates to the indirect discretionary powers conferred by articles 23 and 24 of the decree.

The bulk of the programmes carried out may be regarded as useful experiments because of the rich experience they have furnished. This view is based primarily on the fact that the people's response has been satisfactory, that in every case genuine community leaders have emerged and a number of professionals with a definite aptitude for the work have come forward, and that many problems have been solved. In certain programmes that are backed up by technical advice and statistics the aims of the programme can be expressed in terms of specific targets, whose achievement, even if the programme cannot be carried out in every respect, is evidence of operational capacity and ability to help solve certain problems.

For instance, to take only those cases for which adequate data are available, between July 1960 and December 1963 there were 3,021 investment projects in Venezuela, in fourteen states, for a total of 24.5 million bolivars, under the National Community Development Programme (see table 2). In Colombia in 1963 the Community Action Division invested 49 million Colombian pesos, 57.7 per cent of which was contributed by the people under three headings alone—rural water supply and sewerage systems, health clinics and local roads (see table 3). In Peru the single item of local roads, provided by CEICOP, amounted to 19.5 million soles in 1963 (see table 3). There are also encouraging developments along the same line in the other coun-

Table 2

VENEZUELA: INVESTMENT UNDER THE COMMUNITY DEVELOPMENT PROGRAMME IN FOURTEEN STATES, JULY 1960 TO DECEMBER 1963  
(Thousands of bolivars)

Type of work	Number of projects	Total investment	Permanent agencies	Percentages	National community development programme			Percentage
					Co-ordination and technical assistance	Community	Total	
Water supply systems.....	223	6 483.9	5 045.9	77.8	290.2	1 147.8	1 438.0	22.2
Housing <sup>a</sup> .....	180	1 862.8	1 417.3	76.1	249.8	195.7	445.5	23.9
Highways and other roads.....	127	1 637.2	1 258.3	76.8	275.7	103.2	378.9	23.2
Streets and pavements.....	60	1 324.3	621.5	46.9	160.5	542.3	702.8	53.1
Schools .....	161	1 068.4	762.8	71.4	59.7	245.9	305.6	28.6
Electrification .....	46	962.4	856.5	89.0	7.4	98.5	105.9	11.0
Clinics .....	54	238.7	171.1	71.3	12.2	55.4	67.6	28.7
Community centres .....	57	258.8	...	...	203.7	55.0	258.7	100.0
Bridges .....	59	344.8	226.6	65.7	4.3	113.0	118.2	34.3
Churches .....	33	226.3	110.8	48.9	8.5	107.0	115.5	51.1
Public squares .....	22	120.8	86.8	71.8	5.8	28.2	34.0	28.2
Fencing and gates for livestock.....	34	178.6	116.9	65.5	0.5	61.2	61.7	34.5
Remodelling .....	4	249.6	225.1	90.2	0.5	24.0	24.5	9.8
Drains and sewers.....	58	293.4	170.8	50.2	2.8	119.8	122.6	44.8
Latrines .....	11	10.9	7.3	66.6	0.2	3.4	3.6	33.4
School dining rooms.....	7	58.5	55.1	94.3	1.0	2.4	3.4	5.7
Cemeteries .....	10	27.2	16.0	58.7	...	11.2	11.2	41.3
Other .....	210	834.3	485.9	58.2	105.8	242.6	348.4	41.8
TOTAL	1 356	16 180.8	11 634.7	71.9	1 388.6	3 157.5	4 546.1	28.1

SOURCE: CORDIPLAN.

<sup>a</sup> Excluding 8 496 840 bolivars from the National Programme for Rural Housing, which provided loans to a value of 7 982 330 bolivars and a contribution from the community to the value of 517 510 bolivars, for the construction of 1 665 housing units.

tries, but unfortunately no systematic data are available at present, because of the experimental nature of most of the programmes.

In Peru, according to information supplied by the Ministry of Labour and Indigenous Affairs, 2,652 different projects were completed in 924 communities, and another 611 projects were in course of construction. These projects include roads, schools, bridges, ditches, and canals.<sup>88</sup>

Many other examples of the same kind could be found throughout Latin America to show that many economic improvements and communal welfare projects can be

effected largely on the basis of community development principles. Generally speaking, however, these principles have failed to do as much to expedite economic and social development in the Latin American countries as they might have done. The reasons are many and varied, and here, as in every important question bearing on development, there are structural factors that must be taken into account. Quite apart from the structural causes, which cannot be regarded as within the province of community development principles and methods, there are grounds for believing that the system is being hampered by certain internal defects.

For instance, *at the conceptual level*, a systematic analysis of the doctrine underlying the movement in

<sup>88</sup> See CEICOP, *Cooperación popular*, Lima, 1964.

Table 3

COLOMBIA, PERU AND VENEZUELA: INVESTMENT IN INFRASTRUCTURE WORKS  
WITH PARTICIPATION BY THE PEOPLE

(Thousands of monetary units)

Country	Year	Contributions				Total
		Government and private agencies	Percentage	Community	Percentage	
Colombia (pesos) .....	1960	20 661	42.3	28 175	97.7 <sup>a</sup>	48 836
Peru (soles) .....	1963	15 603	79.9	3 927	20.1	19 530
Venezuela (bolivars) .....	1960	21 006	85.0	3 672	15.0	24 678
	1963	355		926		1 281
TOTAL (bolivars)		21 361		4 598		25 959

SOURCE: Colombia, Division of Community Action, and J. Martínez Espinosa, *Desarrollo de la comunidad en Colombia*, op. cit. Peru, Inter-Ministerial Committee for Public Co-operation, *Solicitud de préstamo a la AID*, Lima, March 1964. Venezuela, CORDIPLAN.

<sup>a</sup> The share contributed by the community is appreciably higher than that contributed by the Government because of the incidence of local roads, for which the community contribution is higher than the average.

the different countries indicates that there is no uniformity as to concept, content, scope or specific aims. In Venezuela the emphasis is on economic development, land reform and inducing a change in the attitudes of the people; in Colombia and Peru it is on voluntary labour for building the social infrastructure; in Paraguay on financial contributions from the people; in Ecuador and Bolivia on socio-rural development; in Chile on co-ordinated work in health, education, agriculture and aided self-help housing projects; in Uruguay and Argentina on ways of helping the people to improve their levels of living, and so on. In Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela the initiative is taken by the Government or semi-public agencies, while in Argentina, Paraguay and Uruguay community development is traditionally an activity for the private sector alone. Such differences are to be found not only between countries, but also within the programmes of a single country. The difference of approach and emphasis in the programmes is not, of course, adverse in itself; difficulties arise when an attempt is made to carry out the programmes on an improvised basis, and when undue emphasis is placed on one or more specific goals, with the result that the programmes lose sight of the basic aim of community development, which is to prepare and organize the people so that they can accelerate economic and social development and obtain more benefit from it.

Then, too, despite the intensive work of promotion and education by the United Nations, there is a lack of appropriate reading matter on the subject. What there is usually consists of monographs describing particular projects and theoretical and teaching material, and very little is issued in Spanish.<sup>89</sup> Only three countries (Colombia, Venezuela and Bolivia) can call on the assistance of academic centres in research on community develop-

<sup>89</sup> In connexion with the Latin American Seminar on the Role of Community Development in the Acceleration of Economic and Social Development, the United Nations and ECLA are collecting a small library on the subject in Spanish.

ment.<sup>90</sup> Foreign advisers seem to have been able to do very little to change this situation. In most cases there is plainly a conceptual confusion, especially as to what are community development programmes proper and what are normal government services. And in the conception and orientation of many programmes there is no clear distinction between community development proper, and other kinds of social action based on charity or paternalism or assistance inspired by political or social interests. Similarly, some official agencies embark on large-scale community development programmes when the need is merely for the ordinary health, education and agricultural extension services.

This variation in the conception and application of community development is clearly shown in table 4.

There are other defects at the *political level*. By definition, given the broad aims pursued, the application on a national scale of community development principles requires that Governments be firmly convinced of the value of the system and prepared to take the decisions required to implement it. But with the exception of one or two countries, these two requirements are not being fully met in Latin America. Often the only decision taken is to apply for international technical assistance, in some cases as a priority measure, but this is not followed up by giving the experts the help they need and taking the political and administrative decisions required to put the programmes into effect. Sometimes enthusiasm for community development is based on party considerations, and consequently certain programmes go down with the parties and groups that sponsor them. Occasionally the publicity and importance given to a programme is not justified by the results

<sup>90</sup> A special department in the Faculty of Sociology of the National University of Colombia, a department of CENDES, at the Central University of Venezuela, and the Indigenous Institute of Bolivia, in connexion with OAS Project 208. Also worthy of note are the activities of the Department of Anthropology of the University of San Marcos, in Lima.

Table 4

## LATIN AMERICA: SOME CHARACTERISTIC PRINCIPLES OF COMMUNITY DEVELOPMENT PROGRAMMES AND ACTIVITIES

<i>General trends</i>	<i>Country</i>
1. Integrated conception and application of the principles of community development.....	Venezuela
2. Stress on participation by the people in infrastructural works .....	Colombia, Peru <sup>a</sup>
3. Stress on rural development.....	Bolivia <sup>b</sup> , Brazil <sup>c</sup> , Ecuador <sup>b</sup>
4. Stress on integration of the indigenous population .....	Ecuador <sup>d</sup> , Peru <sup>d</sup>
5. Stress on financial contributions by the people .....	Paraguay
6. Stress on co-ordination of technical and welfare services .....	Chile, Venezuela
7. Stress on land reform.....	Bolivia, Brazil <sup>e</sup> , Venezuela
8. Help and welfare services for marginal groups .....	Argentina, Chile, Uruguay
9. Guided social change.....	Peru <sup>f</sup>
10. Community development as an instrument of general development plans.....	Bolivia, Chile <sup>g</sup> , Colombia, Ecuador <sup>h</sup> , Venezuela
11. Organization of public participation on a legal basis .....	Bolivia <sup>i</sup> , Colombia <sup>j</sup> , Peru <sup>k</sup>

SOURCE: ECLA, Division of Social Affairs.

<sup>a</sup> National programme of public co-operation.

<sup>b</sup> National rural development plan.

<sup>c</sup> SUDENE and SAR.

<sup>d</sup> ILO Andean Indian Programme.

<sup>e</sup> SUPRA.

<sup>f</sup> VICO.

<sup>g</sup> Arica project.

<sup>h</sup> National rural development programme.

<sup>i</sup> Land Reform Act.

<sup>j</sup> Act 19 of 1958 and District Council Resolution No. 4 of 1959.

<sup>k</sup> Supreme decree 37-F of 1963.

obtained; films and pamphlets about such programmes are to be found all over Latin America.

The operational level also deserves examination. In a number of countries many of the projects launched get bogged down indefinitely at the experimental stage, and no effort seems to be made to extract and apply the lessons to be learnt. Once the publicity boom is over, the most prominent sponsors usually withdraw and the project begins to suffer from neglect and frustration. Many of the communities revert after a few months to their original negative attitude. The working methods are often improvised because no methodological handbooks exist to guide the inexperienced promoters and participants. The costs are usually relatively high, in terms of the salaries and fees of the advisers and professional persons involved and the time wasted by the community through the lack of proper working methods. Many projects have failed for want of adequate and timely technical or financial assistance from the Government and of an organization appropriate to this kind of community work.

Lastly, on the *technological level*, planning techniques do not seem to have been used for any of the programmes apart from that put into effect in 1964 in Ecuador.<sup>91</sup> In practice these programmes tend to consist of a number of individual projects, not directly related

<sup>91</sup> In nearly every case there are references to planning, but these relate merely to administrative decisions made through normal channels. See *Algunos aspectos de desarrollo de la comunidad y participación popular* (ST/ECLA/Conf.18/L.2).

to the Government's other national programmes, much less to the general development plan. In the case of Venezuela's land reform, and Colombia's four-year plan for school building, housing, consumption, water supply and sewerage systems, and health centres, the programmes have been more or less co-ordinated and their execution synchronized. In the other countries the link between community development and the programmes for health, education, sanitation, housing and other services is tenuous or, more commonly, non-existent. Not a single programme has its own manual or methodological guide adapted to local conditions. Personnel training is very limited and is confined to the specialized centres already described, to the annual courses given by CREFAL—and since 1963 the Project 208 courses—and to short courses organized from time to time by government agencies. The only exception is the Community Action Division in Colombia, which holds regular courses on a fairly large scale. The majority of community development officials are social workers who naturally tend to transform the movement into an extension of the social welfare services. In the last few years, however, there has been an appreciable increase in the number of architects, economists, engineers, doctors, teachers, sociologists and agronomists drawn in, and the same is true on a smaller scale of lawyers, veterinarians, administrators and representatives of the Church and the armed forces. Needless to say, many of the other specialists seem to have the same bias towards their own field as the social workers do.

Some of the technological and operational features of the different programmes in Latin America are indicated in table 5.

An analysis of the foregoing observations yields some interesting conclusions. One is that the Latin American countries are at a stage of experiment and adaptation

**Table 5**  
LATIN AMERICA: SOME CHARACTERISTICS OF COMMUNITY DEVELOPMENT PROGRAMMES AND ACTIVITIES

Characteristics	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Paraguay	Peru	Uruguay	Venezuela
1. Application of planning principles and techniques .....	—	A <sup>a</sup>	—	—	—	A <sup>a</sup>	—	—	—	—
2. Regular personnel training										
2.1 High level .....	—	—	—	—	A	—	—	—	—	A <sup>b</sup>
2.2 Intermediate level .....	B	B	—	—	A	—	—	A <sup>c</sup>	—	B <sup>d</sup>
2.3 Local level .....	A	A	A	A	A	A	—	B <sup>e</sup>	—	B <sup>f</sup>
3. Technical assistance										
National .....	—	A	B	A	A	A	A	A	—	A
International .....	OAS-UN <sup>g</sup>	UN-OAS	UN	UN	UN	UN-USAID	—	UN-CORNELL	UN <sup>g</sup>	UN
4. Co-ordination of services and co-operation with the Government...	—	A	B	B	A	A	—	A	—	A
5. Locally-produced handbooks and manuals										
Methodological publications .....	B	—	—	—	A	—	—	—	—	B <sup>h</sup>
6. Research .....	A	—	B	—	A <sup>i</sup>	—	—	—	—	A <sup>b</sup>
7. Promotion .....	—	B	—	B	A	B	—	A	—	A

SOURCE: ECLA, Division of Social Affairs.

A = Application.

B = Partial application.

<sup>a</sup> National rural development programme only.

<sup>b</sup> CENDES.

<sup>c</sup> CEICOP.

<sup>d</sup> National Community Development Programme.

<sup>e</sup> ILO Andean Programme.

<sup>f</sup> IVAC.

<sup>g</sup> Regional Adviser attached to ECLA.

<sup>h</sup> Ministry of Health, Institute of Rural Welfare, IVAC.

<sup>i</sup> Sociological faculty of the National University.

in respect of the principles and practices of community development that has already lasted for a whole decade. In most of the countries it is only in the last five years that significant official measures have been taken. Another conclusion is that although most of the Latin American Governments have tried to import the community development system, they have not taken sufficient pains to make the necessary administrative and structural changes and to give all the practical support that the national sponsors and international experts needed. At the same time, despite the unsuccessful ventures to be found up and down the continent, there are indications that the philosophy and techniques of community development could be highly successful in Latin America. If the problem is looked at objectively, it becomes clear that the blame for failure lies, not with the principles or techniques of social work but with the piecemeal and improvised way in which they have been applied. Moreover, it should be remembered that if the community development system is to be properly applied, and achieve its aims, there must be structural reforms and suitable treatment of their more important aspects. Lastly, notwithstanding the evidence that these principles and practices are applicable in Latin America, modification and supplementation of the concepts, methodology and political and administrative aspects of community development seem to be required, in par-

ticular (a) to adapt them to present conditions in Latin America; (b) to integrate them with other government activities in the field of development, and more specifically, with over-all development plans; (c) to associate them with the aspirations and hopes of the workers and peasants, especially as regards land reform, higher levels of living and better social conditions; (d) to give them a firm rational basis, with the aid of planning techniques and professional specialization.

### 3. COMMUNITY DEVELOPMENT AS A MEANS OF SPEEDING UP LATIN AMERICA'S ECONOMIC AND SOCIAL DEVELOPMENT

Apart from the conceptual and technological difficulties, that can be dealt with easily enough, the large-scale application and success of community development programmes will continue to depend largely on the removal of certain structural obstacles that are, of course, the same as those that stand in the way of the success of general development plans, land reform and all the other major efforts to remedy Latin American underdevelopment.<sup>92</sup> If the aim is, as with such efforts, to overcome these difficulties gradually, and appropriate steps are taken to bring about this process of transformation, then community development can offer equally

<sup>92</sup> See Raúl Prebisch, *op. cit.*

promising prospects as a system of work and as an instrument of economic and social development.

This view is based on two considerations. One is the experience gained in certain Asian and African countries, and the initial success obtained in some Latin American countries, either at the national level, as in Venezuela and Colombia,<sup>93</sup> or in experimental projects of various types. The other relates to the fact that the principles and practices of community development include, *inter alia*, various elements that are crucial to the acceleration of economic and social development and the execution of general development plans. These are: (a) the promotion in the people of attitudes, motives and images that are favourable to economic and social development and can make the population capable of a self-sustaining form of progress; (b) the system of working for development on the basis of association between the people and the Government, which is a sound way of ensuring public participation in general development plans; (c) the effective generation of economic and social development at the local level,<sup>94</sup> and (d) the possible solution of the problem of co-ordination and two-way communication between the upper levels of government and planning, and the masses who produce, consume, save, and have their own aspirations as to levels of living and social conditions.

Once solutions have been found to certain problems relating to methodology and operational procedures and to the adaptation of the system to Latin American conditions and to national circumstances (questions dealt with in part III of the present document), community development can easily be made into a useful or even indispensable tool, as has already been done in some Asian and African countries. If the term "community" is understood in a broad sense, to refer to the process and requirements of development in the Latin American countries, community development can be regarded as essentially an instrument to generate and make use of deliberate, conscious and organized participation by the people, to ensure rational utilization of existing and potential human resources in order to accelerate economic and social development. This obviously implies that the system of community development must be introduced through national programmes that are closely linked to general development plans, just as land reform and the other instruments and prerequisites of development, should be. This is only logical, since community development alone cannot resolve all the problems involved in the economic and social progress of the underdeveloped countries.

In fulfilment of its broad aims (without prejudice to the particular methods that need to be adopted in each individual country) community development should be introduced on a national scale and operate simultaneously in each and every one of the fields covered by the general process of development, and cover both the actual sources where development is generated and the utilization of the benefits of development. Thus certain basic action fronts can be clearly distinguished. The first, *education for development*, would relate to the

<sup>93</sup> See *Report of a Mission on Community Development to Venezuela*, op. cit., and J. Martínez Espinosa, *Estado y tendencias del desarrollo de la comunidad en Colombia*, op. cit.

<sup>94</sup> See *Community development and national development*, op. cit., paras. 33-37.

problem of the attitudes, motives and images of the population, and to liberating the existing and potential resources of the individual and the community. The second, *increase of production*, relates to the channelling of the efforts and skills of the community into production and productivity. A third would be the *raising of the standard of living*, in order to improve actual living conditions. Thus, acting at once on a number of broad fronts, and effecting an orderly and functional integration of the various sectors and levels of the population, community development can perform its vital task of ensuring that the people participate consciously and actively in development plans and programmes, so that they can be implemented and the people can reap solid benefits. Within this broad framework, it would be possible to define the outlines of the limited but important contribution that community development can make in relation to the task of accelerating the development process in Latin America, in particular as regards general economic and social development plans. This contribution can be considered separately under two broad headings.<sup>95</sup>

#### (a) *In the economic field*

The principles of community development can be applied to some of the many economic aspects of the execution of general development plans that call for participation by the people.

One such aspect is *the need to ensure that the population makes a deliberate and conscious effort to fulfil the specific targets and tasks laid down in both the general and sectoral plans*. As indicated in Section A above, the effective execution of development plans and programmes depends largely on whether the various specific tasks and targets can be achieved as originally envisaged with respect to orientation, period, cost, and sectors and areas of operation. This implies a transmission or communication mechanism that permits the population involved in the activities to know what the targets and tasks are and take them into account. Community development can act as an agent of the plan in the sense of arousing a constructive interest in the population, and stimulating and organizing public participation both at the sectoral level and at the local and operational level. Thus, through the use of community development principles and of appropriate techniques, the people can become familiar with, and endorse, the sectoral targets for goods and services, consumption (both quantitative and qualitative), savings and capital formation, and productivity increases. Similarly, it can be assumed that the targets for human resources can be achieved more easily through direct action on a population that has been organized in line with the plan, than throughout the workings of the labour market.

<sup>95</sup> See *Community development and economic development. Part I. A study of the contribution of rural community development programmes to national economic development in Asia and the Far East* (United Nations publication, Sales No.: 60.II.F.6 (Part I), E/CN.11/540); *Primer borrador del programa nacional de la comunidad, Ecuador*, op. cit.; *Report of a Community Development Evaluation Mission in India*, op. cit.; *Colombian Development Plan*, op. cit.; *Government of Peru, Cooperación popular. Bases del programa desarrollo comunal* (prepared by the Inter-Ministry Executive Committee for Public Co-operation, Lima, November 1963); *Government of Ecuador, Decree No. 193 of the Military Governing Junta, 30 January 1964, (Andean Programme of Ecuador)*.

Another contribution that community development can make in this field is its ability to *supplement the resources and activities of over-all economic planning by making available additional economic and financial resources* in the construction of infrastructure works and other projects. Latin American experience gives grounds for thinking that conscientious and enthusiastic voluntary labour can be obtained, through systems of aided self-help, for the construction of roads, irrigation works, electrification works, bridges, water supply and sewerage systems, housing, schools and many other items. Moreover much saving in labour costs is possible in some tasks of national interest, such as literacy campaigns, public health campaigns, etc. Similarly, experience with some projects has shown that additional resources, in cash and in kind, can be obtained for such works through voluntary contributions, donations, public collections,<sup>96</sup> etc.

*Community development can also contribute as an instrument to promote and carry out agrarian reform.*<sup>97</sup> Since this is a structural problem that involves the transformation of rural life and its institutions, the active mobilization of large financial and technical resources, and above all, the mobilization of the population, community development can make a valuable contribution.<sup>98</sup> In the first place, it can facilitate the organization of the communities concerned, the orientation of its relations with the agencies involved in the reform, and technical assistance during the process of resettlement. The resettlement reforms typical of Latin America are recognized as often constituting a serious obstacle to agrarian reform, and this aspect should therefore be adequately dealt with in advance.<sup>99</sup> Through the use of community development principles it is possible to channel constructively the attitudes and hopes of the rural population so as to achieve an orderly reform on a correct technical basis. This is also a way of dealing effectively with the obstacles of a cultural, psychological and social nature that attend any process of resettlement and change in the forms of production. In the second place, community development can facilitate education for co-operative production, and prepare and organize the rural workers for the new production techniques and the execution of works that may be of regional or trade union interest. Similarly, community development may be a useful way of organizing rural unions, and might even serve as one of the bases for defending agrarian reform, particularly against the organized action of those sectors that for various reasons oppose it.<sup>100</sup>

<sup>96</sup> The "offerings" or voluntary public collections in Paraguay are an example.

<sup>97</sup> See Paul S. Taylor, (1) *Relaciones entre el desarrollo de la comunidad y la reforma agraria: Ecuador*, reference document No. 4, Latin American Seminar on the Role of Community Development in the Acceleration of Economic and Social Development, ECLA, Santiago, June 1964, and (2) *Relaciones entre el desarrollo de la comunidad y la reforma agraria: Venezuela*, reference document No. 3 of the said seminar, ECLA, Santiago, 1964.

<sup>98</sup> See *Community development and national development*, op. cit.

<sup>99</sup> See *Rural settlement patterns and social change in Latin America: notes for a strategy of rural development*, op. cit.

<sup>100</sup> *Progress in land reform* (United Nations publication, Sales No.: 63.IV.2), and Jacques Chonchol, *El desarrollo de América Latina y la reforma agraria*, op. cit., p. 94.

## (b) *In the political and administrative field*

As regards the political and administrative aspects of the formulation and execution of general plans, too, community development could provide specific solutions, with respect to three factors in particular.

The first factor is the contribution of community development in *unleashing the new social dynamic of progress* needed in any country that wishes to speed up its development, consolidate it, and produce sources of self-sustaining progress. In fact, as noted in Section A above, economic, political and social changes of the scope and far-reaching nature required by the execution of the general plans, as a prerequisite of their success, cannot easily be made in a country where large masses of the population are paralysed by a social inertia resulting from their age old marginality. Nor can such changes be obtained easily where, although the population seems to have attained acceptable levels of living, their progress is governed by and dependent on a paternalistic Government, or other sector, as the sole source of action and of employment. Nor can success easily be achieved if the population lacks any national ideals focused on overcoming conditions of under-development, or if social progress does not represent any felt need. In the past, of course, this function of mobilizing the country behind development programmes and projects has been assumed in most of the Latin American countries by the political parties, or by the "man of the hour",<sup>101</sup> and there is no need for them to be supplanted in those activities. The aim should be merely to use the principles of community development to stimulate and guide the people in the direction of programmed development activities so that they can subsequently make use of the channels of expression of the popular will available, including the political parties and movements. Community development would thus come to operate as an instrument for giving direction to the participation of the public, and for awakening and encouraging, in the individual and in the community, the will to overcome obstacles, faith in the national destiny, and awareness of solidarity and the need for co-operation; in fact it would act in general as an instrument for mobilizing the people to remedy existing conditions of under-development.

Another contribution community development could make would be to *provide or strengthen the two-way channel of communication* that should exist between the planners and administrators of the general plan, and the population directly affected by the plan. This communication is essential because of the distance between the two levels where the planners and producers, respectively, are operating. Communication is also essential because of the full co-ordination required for the execution of the plans, by reason of their inter-sectoral, inter-regional and national nature. This necessity also follows logically from the need and desirability that the people should in some measure share in the responsibility of formulating the plans.

Another function of community development would be to *help to mobilize, through the machinery of democracy, the living forces of the country, and broad sectors of public opinion, in support of the aims of the general plan*. It is not suggested that through community devel-

<sup>101</sup> See *El desarrollo social de América Latina en la post-guerra*, op. cit.,

opment the unity of action and of aims required by the plans could be achieved, but rather that community development could provide an additional instrument through which non-party action could be taken to seek the basis of popular support required by the plans. It would also provide a means of unification for the purposes of the almost inevitable confrontation in Latin America between those sectors of the population who wish for accelerated development and the small but powerful sectors who are systematically opposed to any effort to promote and consolidate economic and social progress.<sup>102</sup>

(c) *In the social and cultural field*

This has traditionally been a field where community development has demonstrated its effectiveness, in particular because of the eminently educational nature of all its principles and methods. It can also make a valuable contribution in relation to the acceleration of development.

One contribution is the undertaking in an organized form of the *promotion and acceleration of changes in the attitudes, motives and images of the population*, generally negative, so that they become constructive and strongly favourable to the aims of general development plans. It is generally recognized that a large part of the population of Latin America is more or less excluded from economic and political life, and from social development, especially in the rural areas.<sup>103</sup> This exclusion, which has been going on for centuries, is a serious obstacle to any attempt to speed up development, and in particular to raise the national income at the annual rate of 5 per cent, the rate, modest and yet not easy to attain, considered necessary by the United Nations.<sup>104</sup> The substantial changes required in the way of production techniques, and expansion and rationalization of consumption, before such a target can be attained, imply a vigorous process of social and cultural transformation that cannot be expected to take place either spontaneously, or through the long-established and out-of-date programmes, provided by the Ministries of Education, Agriculture, and Development, that are still the rule in Latin America. New systems and methods, and a new concept of the network of development problems, will have to be introduced for this purpose, and the prin-

<sup>102</sup> See *Report on the world social situation* (United Nations publication, Sales No.: 61.IV.4, chapter II, section entitled "Social 'obstacles' to economic development"); Raúl Sáez, *Exposición en nombre de la Nómina de los Nueve* (Plenary meeting of IA-ECOSOC at the Ministerial level, Pan American Union, Washington, October 23, 1962), and Jacques Chonchol, *El desarrollo de América Latina y la reforma agraria*, op. cit., pp. 94 and 95.

<sup>103</sup> See *Agriculture in Latin America: problems and prospects*, loc. cit.; *Report on the world social situation*, op. cit., and *Situação social da América Latina*, Centro Latinoamericano de Pesquisas em Ciências Sociais, Rio de Janeiro, 1961.

<sup>104</sup> See *United Nations Development Decade: proposals for action*, op. cit., p. 9, and General Assembly resolution 1710 (XVI).

ciples of community development have been shown to represent a very promising solution in this field.<sup>105</sup>

Another contribution could be to *stimulate the emergence of new social and cultural patterns and values favourable to economic and social development and to government efforts to accelerate development*. An increase in the pace of development calls for a full awareness on the part of the people, together with faith in the nation's destiny and confidence in the measures taken. New desires for a better life and more progress must replace the feelings of frustration and exclusion characteristic of the rural and urban workers of Latin America, and even of large sectors of the middle classes.<sup>106</sup> Community development can contribute to this end in a number of ways.

A further contribution would be to promote the *integration of rural and urban communities in the countries affected by urbanization* and rapid social changes. The result of the migration of large numbers of the rural population to the towns has been the formation in recent years of agglomerations made up of people varying greatly as to origin, habits and cultural values. Because there has been no timely and effective treatment of this phenomenon, these agglomerations, generally to be found on the outskirts of towns, have lacked cohesion and integration, and the usual result is failure to adapt, violence and frustration.<sup>107</sup> Apart from a few trial attempts of an experimental nature, there is no indication that this problem is receiving the attention and treatment it requires. Yet the success of certain projects in Venezuela and Colombia<sup>108</sup> shows that community development could make a significant contribution in this field.

Lastly, mention must be made of the possible contribution of community development as a *factor in organizing and educating the public to make better use of the services furnished by the Government*. One cause of the poor success of government programmes in health, education, public health, nutrition, literacy campaigns, agricultural extension work, housing, etc., is the lack of deliberate and responsible co-operation by the public. In fact for most of such services unilateral government action however efficient, is not enough to achieve the desired results, and it is essential that the public should adopt a constructive attitude, and show some willingness and enthusiasm.

<sup>105</sup> See *Report of a Community Development Evaluation Mission in India*, op. cit.; *Report of an Evaluation Mission to Venezuela*, op. cit.; *Report of a Community Development Mission to Venezuela*, op. cit., and *Community Development in Brazil*, op. cit.

<sup>106</sup> See *El desarrollo social de América Latina en la postguerra*, op. cit.

<sup>107</sup> See *Evaluación de los Super-Bloques de Caracas*, Banco Obrero de Venezuela, Caracas, 1959; *Urbanization in Latin America*, E/CN.12/662, March 1963, and DESAL, *Estudio pobladores*, Santiago, 1963.

<sup>108</sup> The reference is to experimental work done by the Banco Obrero in the neighbourhood units "29 de enero", "Simón Rodríguez" and "Alberto Ravell" in Caracas, and to the urban "community action" project at Siloé, Cali, Colombia. See *Siloé, un proyecto de rehabilitación de tugurios*, CINVA, Bogotá, 1959.

## C. THE USE OF COMMUNITY DEVELOPMENT AND PUBLIC PARTICIPATION TO ACCELERATE LATIN AMERICA'S ECONOMIC AND SOCIAL DEVELOPMENT

If community development is to play a more vital role in Latin America, its principles and methods must be examined in the light of the real conditions and needs of the Latin American countries. In addition, inclusion of community development in the general efforts to expedite economic and social development must necessarily entail a process of adaptation and the establishment of the new institutions needed to ensure the channelling of the people's energies and actions, the proper functioning of the activities envisaged, and the achievement of their tangible and intangible objectives. Some of the elements to be re-examined, and the adaptations needed, are theoretical or conceptual, while others are technological, or of a political or administrative nature.

### 1. CONCEPTUAL ADJUSTMENTS

One of the first questions to consider, in including community development in Latin America's economic and social development process, is whether or not such activities should be promoted and extended indiscriminately throughout the region in the same form as in other parts of the world. There are, of course, marked differences as to social and cultural situation, and the stage of economic and social development reached, between the Latin American countries, and between different parts of the same country. At the same time views on the magnitude of Latin America's development problems, and the best way to deal with them, vary widely, and are constantly changing. This means that community development principles and methods cannot be introduced in the different countries, or the different areas of a given country, as a standard panacea without regard for local conditions and development needs, or the order of priority called for by the individual situation. While it is true, as indicated in Section B, that all these programmes have a common denominator in terms of principles, the specific targets, methods and operational processes must vary basically from programme to programme.

There must, for example, be differences between the targets, methods, operational processes and degree of application of community development in countries that have reached an advanced stage of urbanization, such as Uruguay, Argentina or Chile, and those with predominantly indigenous and rural populations, such as Ecuador, Bolivia, Peru, Guatemala or Haiti. There must also be differences according to whether the country has a large middle-class sector, or the urban and rural workers predominate; whether there is a well-defined development policy (in the form of a general development plan) in operation, or efforts to further development are sporadic and isolated; whether such efforts are on an impersonal basis, relying on conventional instruments of economy policy, or programmes are based on the conscious participation of the people; whether the people's attitudes and motives are favourable to social progress, or the bulk of the population are practically excluded from the nation's life, or expect everything to be provided by the Government or by the "man of the hour"; whether the population is organized in clearly defined pressure groups, such as trade unions, employers'

associations, civic associations, parties representing a particular class, etc., or whether the people are broken up into different groups or belong to multi-class institutions; whether community development is confined to small clearly defined areas, for experimental purposes or to make use of individual skills, or whether the aim is to use the system to speed up economic and social development at the national level.

In all the above cases, the general approach, the extent to which the principles are applied, the operational processes, the social work techniques and the number and type of institutions needed, all vary considerably. There is a wide gap between the aim of helping a community to help itself, in meeting certain felt needs, and that of organizing the whole population to accelerate the general development process in all its aspects, and there is a great difference in the extent to which energies are liberated and attitudes, motives and images are changed. Operational processes and social work techniques will vary widely, according to whether what is undertaken is a few isolated pilot projects of no particular importance in the national context, or the simultaneous mobilization of all the marginal sectors so that they consciously become a part of the country's economy and culture, and of the general life of the nation. Moreover, such isolated projects do not require the setting up of new institutions, whereas if community development principles are to be applied on a national or regional scale, and its basic aims are to be achieved, a complex process of adjustment, and the establishment of new institutions, are unavoidable.

Another concept which requires to be reviewed and adjusted is that of "the community" as a unit of operation. Traditionally the community has been recognized as the basic operational unit because of the "face-to-face" relationships and the common denominators of locality, interest, reactions and development conditions that forge strong links between the members of the community. The *ad hoc* Group of Experts convened by the United Nations has already commented on this point.<sup>109</sup> In Latin America a review of this concept of the basic operational unit is urgently needed, for a number of reasons. One is that the local "communities", in the sociological sense of the word, are clearly undergoing a process of evolution in most countries of the region as a result of the new trends in rural economic development and in urbanization. The characteristic unit of rural communities is based on the system of relationships typical of the large estates, which in the past were based on the privileges of large landowners and on their systems of production. With few exceptions, this situation has gradually been changing, since many of the typical large landowners of the recent past, surrounded by tradition privileges and prestige, are now becoming entrepreneurs who leave their estates and are replaced by paid managers, while the traditional production systems have gradually been mechanized.<sup>110</sup> The transformation of the landowner and his estate is leading to the disap-

<sup>109</sup> *Community development and national development*, op. cit.

<sup>110</sup> See *The industrial entrepreneur in Latin America* (E/CN.12/642).

pearance of one of the principal factors of cohesion; new groups of technicians and specialized workers have come from the towns to replace many former members of the community, and a new institution, the commercial enterprise, has gradually replaced the old estate patterned directly on the colonial *encomienda*.<sup>111</sup> At the same time urbanization is hastening the disintegration of the traditional communities by attracting the young and dynamic elements to the towns and thus causing a relative reduction in the rural population.<sup>112</sup> This leads to a state of stagnation that makes the task of revitalizing the local community correspondingly more difficult. Another factor is the strong current of change that is now powerfully affecting all the Latin American countries as a result of the new extensive communication networks and heavy investment in infrastructure works. Moreover, even if the typical features of the basic community remained unchanged, it could not carry out the task of promoting development unaided, because it could hardly act as the basic operational unit for the acceleration of development in the world of today. The features of the modern institution of the commercial enterprise, and the economic, social and political relationships involved, and the characteristics of modern production processes, have become much more important and decisive factors than the complex of community relationships provided by the territorial, cultural and emotional unit of the small local community. Enterprises and production processes involve the mobilization or introduction, or both, of techniques, equipment, raw materials, labour, etc.; the organization of domestic and foreign markets; the supply and management of foreign exchange and domestic and external funds; economic policy; the existence of an adequate economic infrastructure; tariff and labour legislation, and so forth. The operational plans and general scope of all this covers the whole country and its major institutions, and even takes in part of the wider sphere of the world market and international policy. However important the community links may be, their importance cannot compare in significance with the above factors.

For these and other reasons it appears that the small local community, though an important factor, particularly for rural development, has neither the skills nor the scope of action required for the basic operational unit in a planned national action to accelerate economic and social development. This means that another unit must be found, with the capacity to act directly on the generating sources of development instead of merely on its outward signs and results, and with the necessary scope to have a considerable effect on the complex process of production and within the broad national context, in accordance with the requirements of a rational coherent approach to the development process as a whole.

A third point that needs re-examination relates to the specific and tangible goals of programmes. The conver-

sion of community development into a decisive instrument to ensure full participation by the people in all efforts to accelerate development, especially over-all plans, means that the specific and tangible goals of community action programmes should be dovetailed with those of the national plans, which represent the sum of the efforts and desires of the country as a whole. This means, too, that the idea of an order of priorities should replace the old criterion of felt needs, when targets are selected and programmed. This subject, which has also been referred to by the *ad hoc* Group of Experts and by other authorities,<sup>113</sup> will be dealt with more fully in the chapter on the application of planning techniques.

Each revision and adaptation found desirable will necessarily entail many related conceptual and procedural changes and adjustments. For example, as regards the formal questions of definitions and designations, new definitions will be required to clarify concepts and avoid the more common misconceptions. A new definition is needed for community development itself, which has given rise to conflicting interpretations. It is sometimes confused with economic and social development, with social services, with social development, or with social welfare, while its most important element, *participation by the people, community action, or the contribution of the community*, is not clearly brought out. In some cases the term "development" has been replaced by other more controversial terms such as "community promotion", "community organization", or "community welfare". As a result of such vagueness community development is commonly taken to mean any kind of work with communities, and this has led to frequent confusion with the normal governmental health, education, agricultural extension and other services. In some instances the result has been a lack of confidence in community development in many professional circles—especially economists and sociologists—and the conceptual anarchy often found among Latin American community development workers. Whatever the reasons for such confusion, the fact remains that the term "community development" has perhaps a more precise content in English and by extension for the Asian, African and Middle East countries, than it does in Latin America. In recent times the wide publicity given throughout the region to the aims of the United Nations Development Decade, and the advanced stage reached in the study of the problem of general development in this part of the world,<sup>114</sup> has given the term "development" a rather special meaning.<sup>115</sup> Consequently its application to a specific philosophy and particular methods of social work gives rise to the conflicting interpretations referred to above.

Moreover, it is becoming increasingly unrealistic to speak of "the community" as a standard unit to be found in any country or any part of a given country. The internal structures of the Latin American countries are

<sup>111</sup> See José Medina Echavarría, *Economic development in Latin America—Sociological considerations* (E/CN.12/646); Celso Furtado, *Desenvolvimento econômico do Brasil*; T. Lynn Smith, *Brazil: People and institutions*, Rio de Janeiro, Fundo de Cultura S.A., 3rd edition, 1961, and M. Wolfe, *Rural and urban settlement patterns*, reference document No. 1 submitted to the Latin American Seminar on the Role of Community Development in the Acceleration of Economic and Social Development, Santiago, Chile, 1964.

<sup>112</sup> See *Urbanization in Latin America*, op. cit.

<sup>113</sup> See *Community development and national development*, op. cit.; Cyril S. Belshaw, *A critical analysis of community development as an economic, social and administrative process*, reference Paper No. 1, Meeting of an *Ad Hoc* Group of Experts on Community development, United Nations, New York, February 1963.

<sup>114</sup> *Progresos en materia de planificación en América Latina*, op. cit.

<sup>115</sup> See *The United Nations Development Decade. Proposals for action*, op. cit.; and Raúl Prebisch, op. cit.

notably heterogeneous, and vary widely from country to country, so that in practice there is a whole range of units to be considered, from the modern to the primitive, covering an intervening zone that is typical of under-development.

This means that community development work has to provide for communities of all kinds, in line with the variations in internal economic structure. There should accordingly be theoretical and operational approaches suited to each of the typical groups, and at least for the three main groups, namely, the modern, under-developed and primitive communities.

## 2. TECHNOLOGICAL ADJUSTMENTS AND INNOVATIONS

If the resources devoted to community development programmes are to yield better results, new technological instruments will be needed and the existing instruments strengthened and adapted to development conditions in each Latin American country. Planning techniques and systematic social research must be introduced to serve as the basis and guidelines for all programme activities, while work methods and techniques are modified and general and vocational training is intensified and better organized.

### (a) *The use of planning techniques*

The formulation and execution of community development programmes, whether at the national, area or local level, involve a complex of measures that must have some degree of rationalization, method and accuracy. In this field, as in others where it is necessary to adapt and combine different kinds of measures in terms of given objectives and instruments, and of existing conditions no effort should be spared to arrive at rational decisions and act with forethought. In community development this is even more important because of the volume and nature of the resources involved and because even partial failure generally results in frustration and loss of confidence and a weakening of support in professional and government circles; in addition, the inter-sectoral nature of these activities, and the fact that they form part of a single process, demands both a high level of co-ordination and synchronization, and a functional and rational arrangement of the operational sequence. These conditions cannot be fulfilled by haphazard or improvised methods, or through the unilateral efforts of a single group of specialists, such as social workers or fundamental education workers. On the contrary, there must be a coherent process of study, rational planning and well grounded decisions, carried out systematically by a team of specialists, and based essentially on national development conditions and requirements. In countries with national or area development plans and programmes, community development activities must of course be planned and carried out as an integral part of the general plans, and should therefore be directed as far as possible to ensuring an organized contribution by the people to the success of those plans.

Consequently it is desirable to introduce planning principles and techniques, regarded simply as instruments of rationalization and administration, into community development activities. It is not suggested that the community should be arbitrarily subjected to the

strictly rational formulas of technical experts, or that it would be incapable of organizing and co-ordinating its own activities. The idea is merely to place at the disposal of these programmes an operational instrument that will make it possible to obtain better results from the existing resources, and reduce the risks inherent in operations governed by improvisation, a subjective outlook, and anarchy. Planning techniques would be particularly useful in such aspects of community development programmes as (i) the selection of targets, (ii) the programming of the operational process, and (iii) the operational organization.<sup>116</sup>

As regards (i), community development has its own well-defined general aims, but these must be clearly defined in terms of each specific activity and project, not only in the light of the needs of the community concerned, but also within the broad context of the requirements and interests of the country as a whole. In countries where general development plans are being carried out the procedure is simplified, since it is necessary only to translate the objectives and targets of the general plan into local and sectoral terms in each case, so that the people can participate in achieving them. The main problem is that community development cannot be applied in a standard form to any country or any situation, and that specific targets must therefore be suitably adapted, when activities are being programmed, in accordance with the circumstances in the given country, area or community.

As regards (ii) the programming of the operational process, a community development programme, whether at the national, area or local level, should represent an integrated group of systematically organized measures carried out on a co-ordinated basis. If the programme is part of a general plan, it should progress in step with the plan, and operate as an actual component of the plan. From the standpoint of its execution, such a programme must be an operational process or sequence that can be rationally programmed and directed, and not merely a collection of isolated activities. Community development programmes have as yet no properly evaluated planning methodology of their own. But broadly speaking this operational sequence has characteristic "variables" that could and should be dealt with rationally and methodically in terms of the aims of the plan and of the community development programme in particular; hence there would be supplementary (though of course less important) criteria to serve as a guide in seeking greater operational flexibility and capacity.<sup>117</sup> These would include the "trajectory",<sup>118</sup> the "rate" and the "speed" of the programme, which are, of course, susceptible of rational estimation and planning. At the same time, there are other basic aspects of the operational

<sup>116</sup> See *Algunos aspectos de la contribución de la planificación a los programas de desarrollo de la comunidad y participación popular* (ST/ECLA/Conf.18/L.2).

<sup>117</sup> *Ibid.*

<sup>118</sup> The "trajectory" would represent the timetable for all the programme activities, in terms of the time allocated and the volume of activities considered necessary or desirable. It is assumed that the "trajectory" can be expressed by an equation of the second degree whose two variables are the time available (years, months, weeks, etc.) and the number of specific activities and operations laid down in the programme.

process,<sup>119</sup> such as programme strategy, action fronts, activities and operations, operational areas, participating elements and operational relations, where rational decisions and well thought out measures are highly desirable. Programming of the operational process would therefore consist of deciding on the type and number of specific activities and operations in each operational area and in each period and on the rate, the programme strategy, the specialized fields, the participating elements and the relations co-ordinating the whole process. It would be simply a matter of arriving at the best combination of this group of factors that provide the basis for the broad range of activities that make up a community development programme.

As regards (iii), organization for action, clearly the implementation of a community development programme, whatever its scope, requires the prior existence of a group of specially designed and organized instruments or organs to fulfil the various functions and targets established. Obviously, this group of instruments or organs should be as co-ordinated and synchronized as possible, in order to ensure the minimum unity of action and operational capacity required for success. A sufficient degree of rationalization must be introduced to adapt certain means to certain specific ends, and to establish minimum bases for an organic operational relationship between them. The most important of such means would be political, legal, economic and operational.

Political instruments are designed to incorporate community development, as a doctrine and as a course of action, into the life of the nation, and to consolidate and increase the prestige of community development principles and methods in the political sphere. This process of incorporation should be promoted and directed on a rational and technical basis. Experience in the different countries is demonstrating that this cannot be done merely by enacting a law or decree, or conducting a publicity campaign. The problem is far too complicated for that, since the programme must have its roots in the very heart of the nation; the principles and practices must penetrate into the minds and hearts of the people, and public participation in all efforts to speed up economic and social development must constitute a felt need throughout the national community.

One political instrument is a national community development policy conceived and executed as the integration of all government action to promote and consolidate the use in the country of the power of action and decision of the people, and of their communities, to accelerate economic and social development. If the development policy is to be effective and coherent, it should

<sup>119</sup> "Strategy" relates to the different phases and procedures of the programme, based on concepts of receptivity to social changes, and the progressiveness and stability of those changes, that determine the timing of the phases of promotion, execution, consolidation, etc. "Action fronts" are programme activities grouped according to their nature and objectives, and would include "education for development", "increase of production", "raising levels of living", etc. An "activity" is a group of measures of the same kind within the programme. For methodological purposes they can be broken down into "operations" and "tasks", to facilitate the construction of the general table of activities. "Operational areas" are merely territorial or sectoral units within which the programme is carried out. "Operational relations" are the complex of relations necessary to fulfil the various functions and link up the various agencies that participate directly or indirectly in the programme.

eventually cover most of the country and its different social sectors, and act on the factors that intervene directly or indirectly in the development process. Another political instrument is the support of all the live forces of the country, which a community development programme must have. Such support does not, of course, arise spontaneously; it must be built up methodically and patiently, and be guided in a constructive and democratic way. Another instrument is what might be termed the "general staff", a dynamic group of men with the ability and vision to put the whole programme into operation and to implant the underlying principles in the national consciousness. The incorporation of community development into the life of a nation calls for new men with fresh concepts and an added awareness. Such men are not easily found, nor can they be organized for action unless the ground is prepared and a suitable intellectual, political and professional climate is created to attract them, stimulate them and fortify them in their vocation and beliefs. Another relevant point is the organization of suitable channels for the effective participation of the people in planning activities. It is generally recognized that there is no real possibility of such participation within the esoteric methodological schemes used by most planners and administrators.

The legal instruments are needed to establish the juridical foundation required if community development is to operate properly, and so solve the legal and procedural problems that arise in relation to the constitution, the legislation and the public administration system. Broadly speaking, they are a body of measures that grant powers, impose obligations, and even inflict penalties, that are intended to give legal force and protection to community development activities, regulate them and guarantee their continuity, and ensure the co-operation of state-owned and semi-public agencies. These legal measures should not be piecemeal or haphazard; rationalization and forethought are needed in this field.

As regards economic instruments, the adequate and timely provision of funds, in conjunction with technical assistance, is one of the cornerstones of these programmes that bring together the Government and the people. Latin American experience indicates that the community usually responds by giving their enthusiastic support, their labour, and even their money, but that Governments are seldom able to make their contribution at the right time. Despite the commitments entered into by politicians and technical experts, the items in question seldom appear in official estimates, nor do the appropriate channels exist for conveying the funds to the individual programmes. In some cases the reason is inertia and lack of foresight on the part of the community development officers, while in others it is the failure of the Governments to realize that funds spent on community development are a real investment, since they represent the cost of promoting social and cultural change and raising the level of living, and, above all, of dealing with aspects that are vital to accelerated economic and social development. Since community development programmes supplement normal public and private services, they need a financial agency that can fulfil the different functions needed, such as channelling the resources coming from the Government and semi-public bodies, and from the private sector, in particular from the communities; distributing the resources avail-

able in accordance with the two criteria of social welfare and financial administration; and securing external credit funds and handling them on the Government's behalf. A sound combination of resources, functions, principles of distribution and management is not to be achieved by chance, and consequently the whole question must be approached on a suitably rational basis.

Lastly, the operational instruments are the basic vehicle of the programme. The operative function is complex and many-faceted at all levels of community development programmes. It requires both a highly specialized training, and an aptitude and vocation for social work, and covers a wide variety of fields of action, including planning, co-ordination, administration, evaluation, control, training and publicity. The operational agency should therefore include specialized organs for each of these and other functions, and have the standing, powers and contacts necessary to carry out its task.<sup>120</sup> This machinery cannot be set up and organized in the haphazard way that has been so common in Latin America; it must be the fruit of systematic contributions from specialists and from those responsible for national policy.

#### (b) *Incorporation of social research*

The pre-eminently social and educational nature of community development obviously means that all its activities must be grounded on a solid and systematic knowledge of the social and cultural conditions of the people concerned. However, with very few exceptions,<sup>121</sup> there is little evidence that the initiation and extension of these programmes has been preceded by the minimum amount of social research needed. And although some sociological studies have been made at the community level, there is no indication that they have been extended to the national level and related to general development conditions. Nor is there good reason to believe that the aims pursued and the methods of work adopted have been adapted to the characteristics of the individual community. In some cases, notably in the Andean communities, not even the language used is of the community. Moreover, there seems to have been no attempt to make a systematic study of traditions and trends in the different communities, with a view to incorporating the basic elements of community development in the community itself, and in its cultural roots. It is known, for instance, that community co-operation in activities and projects of common interest, and mutual self-help among the members of the same community, are part of a long and uninterrupted tradition in Latin America, under the form of the *minga*, the *convite*, the *fajina*, the *mutirao* or the *mano prestada*. But no studies have been made that would enable this source to be adapted and systematically drawn upon. Moreover, it is becoming more and more evident that the people's resistance to social change is usually a

<sup>120</sup> See *Public administration aspects of community development programmes*, op. cit., and *Report of a community development mission to Venezuela*, op. cit.

<sup>121</sup> See O. Fals-Borda and N. Chaves, *Acción comunal en una vereda colombiana*, Bogotá, Sociology Faculty of the National University, 1959; the research programme of the Centre for Development Studies in the Central University of Venezuela; Mario Vasquez, *Cambios socio-económicos en una hacienda andina del Perú*, *América Indígena*, vol. XXII, No. 4 (1962); and certain studies by the universities of Buenos Aires and La Plata.

product of structural factors, especially the system of land tenure, the urban-industrial pattern and the power structure,<sup>122</sup> and of the trends now developing in those areas. It is generally agreed that the structure of agriculture in Latin America, and its external situation in many Latin American countries, constitute an obstacle to any kind of community development. The effect of the modernization of some of these structures is reflected in the disintegration of community life and the marginal existence of certain groups in the urban areas.<sup>123</sup> There is reason to fear that the Latin American municipality has lost or is losing its power of action and its time-honoured role as a nucleus of services,<sup>124</sup> and consequently that hopes of drawing upon the enterprise and vitality of the local nucleus may well be built on air. But these and other misgivings are not being taken into account in the promotion of community development, nor is much thought given to social research. Apart from the Venezuelan programme, and Bolivia's National Plan for Rural Development, both of which stress land reform, there is no interest in the Latin American countries as a whole in linking community development with the necessary structural reforms.<sup>125</sup> Admittedly, the lack of an adequate contribution by social research is not true only of community development, since the same applies to all social aspects of the development complex, and is apparently due to the existing defects of sociological research in Latin America.<sup>126</sup> Nevertheless, a methodical research effort should be made, at least in the area of community development, if the aim is to transform community development principles and methods into an instrument for accelerated economic and social development.

#### (c) *Methodological instruments and operational techniques*

The extension of community development in Latin America has also been hampered by serious defects in operational methods and techniques, in the promotion, programming, execution and evaluation of community

<sup>122</sup> See *The Social development of Latin America in the post-war period*, op. cit.; F. C. Weffort, *Algunas consideraciones sobre la relación entre la sociología y la planificación*, Working Paper No. 3 of the Working Group on the Study and Programming of Social Development, Latin American Institute for Economic and Social Planning, Santiago, Chile, 1963.

<sup>123</sup> See *La incorporación de los aspectos sociales a la planificación*, Working Paper No. 4 of the Working Group on the Study and Programming of Social Development, Latin American Institute for Economic and Social Planning, Santiago, Chile, 1963.

<sup>124</sup> See A. García, *La planificación municipal*, Bogotá, 1948; *A handbook of public administration: Current concepts and practice with special reference to developing countries* (United Nations publication, Sales No.: 61.II.H.2); United Nations, *Decentralization for national and local development* (ST/TAC/M/19).

<sup>125</sup> See Paul S. Taylor, *Relations between community development and agrarian reform: Ecuador*, op. cit., and *Relations between community development and agrarian reform: Venezuela*, op. cit.

<sup>126</sup> See *Consideraciones acerca de las investigaciones propuestas por la División de Estudios y Programación del Desarrollo Social*, Working Paper No. 5 of the Working Group on the Study and Programming of Social Development, Latin American Institute for Economic and Social Planning, Santiago, 1963; G. Germani, "Algunas condiciones para el desarrollo de la investigación en América Latina", *Memoria del Congreso Latinoamericano de Sociología*, Caracas, 1961, vol. I, p. 113.

development activities. In this field activities are undertaken and carried out virtually without the help of a methodology, manuals or proper equipment, and promoters have nearly always had to improvise their own operational and programming tools. The few publications that exist on the subject are seldom issued in Spanish, and often refer to specific cases in Asia, Africa, the Middle East or the United States. With few exceptions, the professionals and institutions that have specialized in this field in Latin America have made no effort to prepare methodological handbooks.<sup>127</sup>

The contrasts and widely differing situations to be found both in the Latin American countries as a whole and within individual countries, require instruments specifically designed for the different working fronts. Accordingly, a large number of working methods are needed, and new techniques and equipment have to be adopted. One aspect that requires more attention is the method of social work in rural areas, where special methods are needed for the indigenous communities, and rural communities living a marginal life, and for communities affected by rapid changes (especially communities near urban areas) or by large infrastructure projects (regional development plans, dams, irrigation works, communication networks, new mines, etc.). This same applies to work in ordinary urban communities and in those where urbanization is intensive, as it is in capital cities. The same variety is needed in methodological handbooks or manuals for the planning and implementation of community development programmes, literature on ways of strengthening local initiative and local government and special manuals on specific lines of work, such as social research, the establishment of public participation machinery for the different sectors and levels. Lastly, there should be special emphasis on the introduction and use of modern techniques and equipment for mass education, publicity, etc. such as radio schools, educational television and audio-visual aids.

#### (d) *Human resources and professional training*

The re-examination of the problem of human resources and professional training for community development raises a number of points of interest. One is the need for a new image, or a new conception, of the professional worker who is to be responsible for guiding and executing the proposed new mission. Thus far the professional and technical basis of community development in most Latin American countries has been provided by social workers and the social services, respectively, and to a lesser extent by educators, doctors, architects and sociologists. As these programmes have been expanded, it has become necessary to improvise new teams of promoters, whose common denominator has been essentially that they were government officials, as regards the public sector, or volunteers impelled by a vocation for social service, as regards the private sector. Obviously this has been a limited solution imposed by circum-

<sup>127</sup> See the publications by Caroline F. Ware, *Community studies*, Pan American Union, Washington, D.C.; *Organización de la comunidad para el bienestar social*, Pan American Union, Washington, D.C.; Rubén Utría, *La acción comunal como programa de gobierno. Bases de metodología aplicada a la vivienda*, University of America, Bogotá, 1960; Campos Jimenez, *Organización y desarrollo de la comunidad para el bienestar social*, Guatemala, 1956.

stances during the experimental stage, and the aim must now be to recruit a more clearly professional type of staff who are better trained for the work. In general terms, their attitudes and skills should be based on a clear and well-ordered picture of the nature and problems of the process of economic and social development, an impartial desire to serve, and a professional expertise that qualifies them to carry out a specific function.

Another important point is the need to create a new and dynamic leadership, in the form of persons who, as far as possible, should meet the twofold requirement of being at once technically qualified in the field concerned, and in development planning, and endowed with the desire to effect social improvements and the ability to make contact with the community. A careful study of Latin American experience shows that the few successful attempts that can be pointed to at the present time have resulted from the efforts and influence of persons of this type.

Another important question is the new direction that needs to be given to the task of training high-level professional staff. In line with the foregoing observations, the academic training of future professional staff should be of an inter-disciplinary nature, and should be on an objective and predominantly technical plane. This training would centre round certain basic elements, including the complex of development problems, and techniques of social research, programming, social work and social organization, and administration. Training at the intermediate and lower levels would also have to be adapted in line with the new general orientation proposed.<sup>128</sup>

At the level of the community leaders also some innovations need to be considered. The new role that it is hoped the people will play will depend largely on the existence of leaders among the people themselves who are equipped to act at a higher level and to discuss problems with technicians, government agents and the capital sectors concerned with the programmes that are being carried out. Special efforts are needed to identify and train such leaders among the rural and urban workers, not only at the local level, but also at the sectoral or even national level.

Lastly, it should be noted that these training activities should be based on a new strategy. In principle the aim should be to make these activities part of those that are being given priority in the field of professional training and the development of human resources with a view to accelerating the general process of development in the different countries, rather than treating them separately as a problem of strictly professional interest. Another part of this strategy should be to attract the interest of the other professional disciplines, and appropriate action must be taken for that purpose. In addition, new criteria of a scientific nature must replace the pragmatic and empirical approach typical of much social work in Latin America, and in particular of many community development programmes.

<sup>128</sup> See *Report of a Community Development Mission to Venezuela*, op. cit., Annex II on training of personnel; *The social training of front-line rural development workers* (ST/SOA/46), and *Report on the Training Course in Community Development for East Africa* held at Dar-es-Salaam, Tanganyika, 6 November to 6 December 1963; Report published by the Economic Commission for Africa, document E/CN.14/SWCD/26.

### 3. IMPLICATION IN THE POLITICAL AND ADMINISTRATIVE FIELD

Granted that the principles of community development are really useful—as demonstrated by various programmes—and that the techniques now in use can be adapted and improved, the practical possibility of converting community development into a means of speeding up development in Latin America depends further, essentially, on the satisfaction of a number of conditions. These relate principally to the repercussions that the use of community development for this purpose will entail in the political and administrative field, and in the social field.

One such prerequisite relates to the degree of awareness needed in the leading circles of the various countries in terms not only of desiring participation by the people, of the nature and scope required by the principles of community development, but also of recognizing that such participation is necessary and desirable, and that the time is ripe for it. An analysis of the past evolution and present situation of community development as applied in Asia and Africa shows that it has always been associated with, and largely based on, the inspiration and political power of the Governments and the principal leaders.<sup>129</sup> In those countries community development has consisted not of a collection of experimental programmes, but of a single government programme, fully integrated and implemented.<sup>130</sup> It may well be wondered whether such an awareness exists in Latin America. It is equally essential that the planners and technicians, who are increasingly to be found at high levels of government in various countries, should desire such participation and regard it as one of the basic assumptions underlying their plans and programmes. Consequently the same question arises as to their attitude.

Another prerequisite is the existence of institutions and operational machinery on a scale and level of efficiency to permit the encouragement, channelling and constructive utilization of the initiative and energies of the people that community development may release in every country by providing an institutional basis for their participation. Once the basic decision has been taken to incorporate the whole population in the life of

<sup>129</sup> See Mahatma K. Gandhi, *op. cit.*; Rajendra Prasad, *op. cit.*; and *Report of a Community Development Evaluation Mission in India*, *op. cit.*

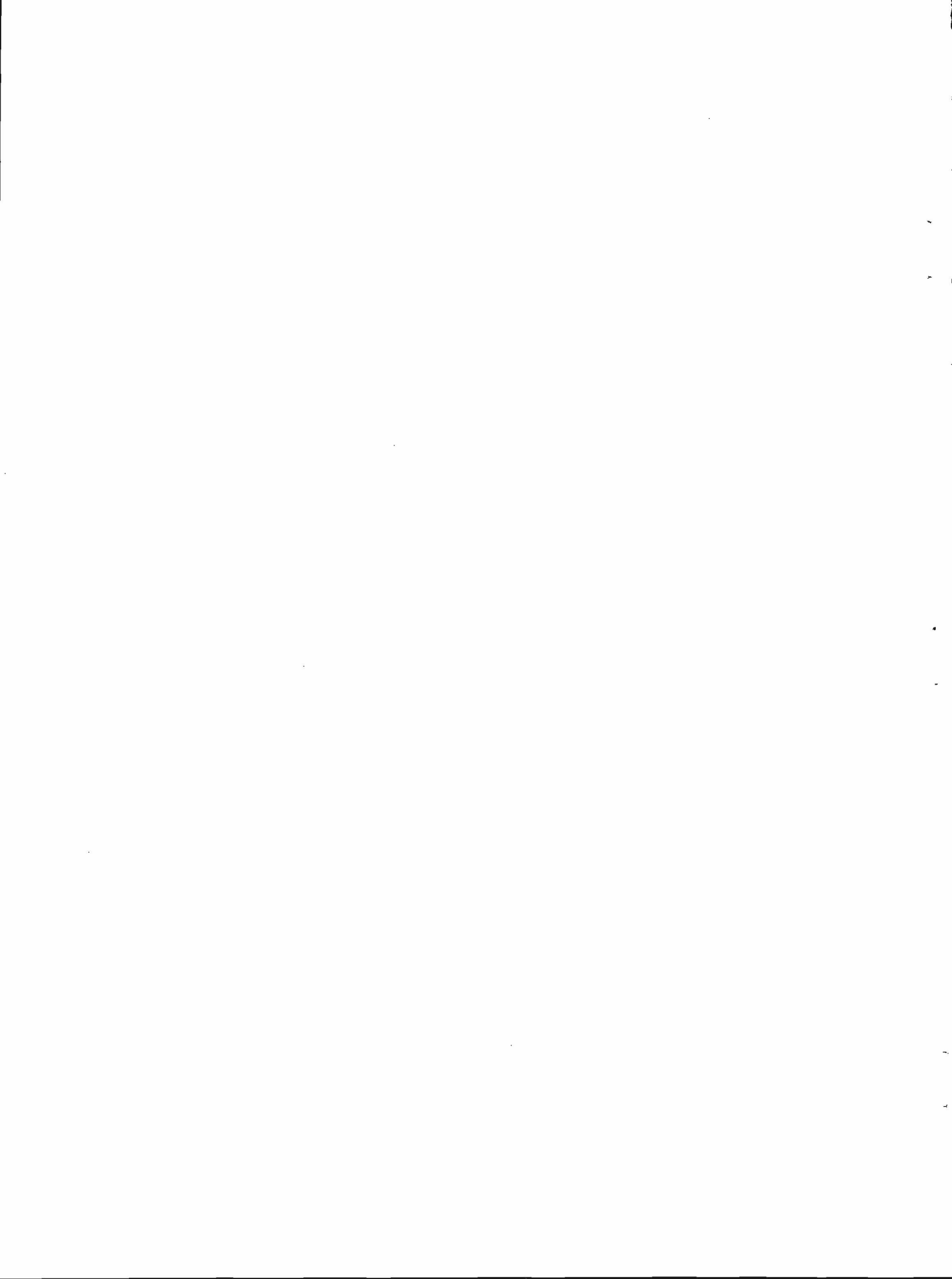
<sup>130</sup> See John P. Lewis, *Quiet crisis in India*, The Brookings Institution, Washington, 1962; Government of Bombay, *Report of the Sarvodaya Scheme Evaluation Committee*, 1956, and Government of India, *The First Five-Years Plan*.

the nation, a lengthy and complex process of establishing and improving the necessary means must be set on foot. Again, the question arises of whether the decision and will power exist that are needed for the necessary changes, and even more, how far the inertia resulting from the traditional exclusion from the national life of great masses of the population will hold back the process of establishing and improving the means for their incorporation. Generally speaking, it is recognized that it will be necessary to reorganize the government services to permit them to operate flexibly and efficiently within the new system of association with the community, and that new instruments will be needed to carry out new functions, but it may be asked how far it will prove possible to remove the obstacles to the institutionalization of the participation of the people, especially in relation to the agrarian, urban-industrial and power structures.

Another requirement relates to the atmosphere of the rational mobilization of forces and national construction that appears to be needed if community development is to forge ahead with full vigour. Here, too, an analysis of the circumstances in which these principles took root and spread in other continents shows that they are the very circumstances in which independence was nourished and the transition made to many new institutions that in fact constitute a basic achievement. It should not be forgotten that community development in Asia and Africa is linked both with the most outstanding figures of the age, and also with national aspirations of independence, and was characterized from the outset by an atmosphere that was political and religious rather than technical.<sup>131</sup> Thus it might well be asked whether there exists in the Latin American countries a similar element that could create the atmosphere of national mobilization of forces, and national construction.

These and other implications in the use of community development principles as a means of encouraging conscious and organized participation by the people, or the use of any other method of achieving that end, should be analysed by the planners, sociologists and promoters of social development in Latin America, in an impartial spirit, as a matter of urgency. The need is not merely for an academic discussion on the possible implications of introducing certain working methods, but for an attempt to find alternative methods of effecting a voluntary mobilization of the communities, since their age-old exclusion from the national life is one of the most serious obstacles to the acceleration of development in the Latin American countries.

<sup>131</sup> See M. K. Gandhi, *op. cit.*, and J. P. Lewis, *op. cit.*



## LATIN AMERICA'S COFFEE EXPORTS TO COUNTRIES MEMBERS OF THE EUROPEAN ECONOMIC COMMUNITY\*

### 1. IMPORTANCE OF COFFEE EXPORTS

Coffee ranks foremost among all Latin America's agricultural exports. During the fifties, it represented approximately 20 per cent of the total value of sales abroad; and among export commodities as a whole, its relative importance is outweighed only by that of petroleum, which accounts for about one-fourth of the aggregate value of the region's exports at the present time.

In the export trade of Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Haiti and Nicaragua coffee is the principal item, and the income accruing from its sale on foreign markets constitutes over 50 per cent of the credit side of these countries' trade balances (with the single exception of Brazil, in whose case it represents

\* In connexion with the United Nations Conference on Trade and Development, the ECLA secretariat, at the request of the Governments of the region, prepared a series of technical background data which were presented in document E/CN.12/693. One of the problems to which attention was drawn in this analysis was that of the limitations imposed in the expansion of demand for some tropical products by internal taxes on consumption and other mark-ups affecting these commodities in the markets of the European Economic Community. The aim of this note is to present some further background data illustrative of the magnitude of such problems in relation to coffee, the most important of Latin America's agricultural exports.

about 30 per cent). Elsewhere too—in the Dominican Republic, Ecuador and Honduras—coffee is a staple export item, with a relative importance of 10 per cent or more. In some industrial countries, the end price of coffee is very high in relation to the import cost, mainly as a result of disproportionately heavy taxes. Obviously, this severely limits consumption, to the direct disadvantage of the coffee-exporting countries. Such is the position, generally speaking, in the European Common Market, which is the recipient of approximately 20 per cent of Latin America's coffee exports.

### 2. SCALE OF TAXATION, AND ITS INCIDENCE ON PRICES

The incidence of taxation is high, especially in the Federal Republic of Germany, France and Italy. Although the aim of the present note is simply to quantify the taxes concerned in the aggregate in order to facilitate the evaluation of their impact on Latin America's export trade, and not to embark upon an analysis of their origin and nature, a point which should be made here is that customs tariffs account for only a minimal proportion (12 per cent of the total in the Federal Republic of Germany, 21.5 per cent in France and 9.5 per cent in Italy); in every case, the direct tax on coffee consumption is heavy, as can be seen in table 1.

**Table 1**

LATIN AMERICA: TOTAL EXPORTS OF COFFEE TO THE COUNTRIES MEMBERS OF THE EUROPEAN ECONOMIC COMMUNITY, 1960 AND 1961

Market of destination	Volume (thousands of 60-kg bags)		Tax revenue (dollars)	
	1960	1961	Per kilogramme	Total
Belgium and Luxembourg.....	700.2	682.4	0.09	7 466 040
Federal Republic of Germany.....	3 035.4	2 874.1	1.38	489 306 600
France .....	736.1	723.8	0.42	36 789 480
Italy .....	1 096.8	1 243.5	1.10	154 459 800
Netherlands .....	693.1	1 011.8	0.01	1 023 000
TOTAL	6 261.6	6 535.6		689 044 920
Estimated f.o.b. value (millions of dollars) .....	300.0	294.0 = 594.0		

SOURCE: Export volumes and estimates of f.o.b. values: Federación Nacional de Cafeteros, *Boletín de Estadística*, No. 38, Bogotá, Colombia. Taxes: Instituto Brasileiro do Café.

In the two years under consideration and in respect of the same shipments of coffee, the tax revenue collected by the six Common Market countries (\$689 million) far exceeded the total f.o.b. value (\$594 million) received by the producer countries.

Another significant fact is that there are striking dissimilarities in the structure of retail prices for coffee within the Common Market, reflecting different levels not only of taxation but also of the "intermediate costs" represented by distribution and industrial processing costs plus profit margins, etc. (see table 2).

Table 2

EUROPEAN ECONOMIC COMMUNITY: COMPOSITION OF RETAIL PRICE OF ROASTED COFFEE,<sup>a</sup> 1962

	Belgium		Federal Republic of Germany		France		Italy		Luxembourg		Netherlands	
	Dollars per kg	Percentage	Dollars per kg	Percentage	Dollars per kg	Percentage	Dollars per kg	Percentage	Dollars per kg	Percentage	Dollars per kg	Percentage
Raw material .....	0.81	41	0.96	22	0.95	47	0.76	24	0.81	38	0.89	54
Taxes .....	0.11	6	1.66	39	0.50	24	1.32	41	0.12	6	0.01	9
Marketing <sup>b</sup> .....	1.03	53	1.68	39	0.60	29	1.12	35	1.18	56	0.76	46
<b>TOTAL</b>	<b>1.96</b>	<b>100</b>	<b>4.30</b>	<b>100</b>	<b>2.05</b>	<b>100</b>	<b>3.20</b>	<b>100</b>	<b>2.01</b>	<b>100</b>	<b>1.66</b>	<b>100</b>

SOURCE: Instituto Brasileiro do Café.

<sup>a</sup> 1 kg roasted coffee = 1.2 kg green coffee.<sup>b</sup> Including industrial processing and profit margins.

The retail price is twice as high in the Federal Republic of Germany as in Belgium, France and Luxembourg (in all three of which it is much the same); in Italy, again, it is double the price charged in the Netherlands, which is the lowest of all. The component of least value in the composition of the retail price, despite the fact that the processing required is of an absolutely primary character, is the c.i.f. cost of the green coffee, which in no instance is as much as a dollar per kilogramme.

The most impressive disparities are to be noted under the head of "marketing, distribution, industrial processing (roasting) and profit margins", where the sum of \$1.68 per kilogramme is registered for the Federal Republic of Germany, as against just over a dollar for Belgium, Italy and Luxembourg, \$0.76 for the Netherlands and \$0.60 for France. As the processing involved is virtually the same, the inference is that in the Federal Republic of Germany margins of profit are higher than in the other countries of the Community.

The margin between the import and the consumer price in 1960 and 1961 was considerably narrower in the United States than in any of the countries members of the Community, as is shown in table 3.

Table 3

UNITED STATES: RELATION BETWEEN IMPORT PRICE AND RETAIL CONSUMER PRICE, 1960 AND 1961  
(Cents per kilogramme)

	1960	1961
Import price (green coffee) <sup>a</sup> .....	74.8	71.4
Equivalent price (roasted coffee) <sup>a</sup> .....	89.76	85.68
Marketing margin <sup>b</sup> .....	58.08	59.74
<b>TOTAL (average retail price)</b>	<b>147.84</b>	<b>145.42</b>

SOURCE: Instituto Brasileiro do Café, Corso de Economia Cafeeira, 1962.

<sup>a</sup> 1 kg. roasted coffee = 1.2 kg green coffee.<sup>b</sup> Including distribution, industrial processing and profit margins.

Although insufficient data are available for the same comparisons to be made in respect of the year 1962, it is of interest to relate the preceding findings to similar figures for the European Common Market countries (see table 4). It transpires that the total difference between the import and the retail price computed for the United States is considerably less than the intermediate costs (excluding all taxes) found in each of the countries members of the European Economic Community (see table 5).

Table 4

RELATION BETWEEN IMPORT AND RETAIL CONSUMER PRICES IN THE UNITED STATES AND IN THE COUNTRIES MEMBERS OF THE EUROPEAN ECONOMIC COMMUNITY

(Cents per kilogramme)

	United States (1960-1962)	European Economic Community (1962)				
		Federal Republic of Germany	Italy	France	Belgium and Luxembourg	Netherlands
Retail price .....	147	430	320	205	198	166
Raw material <sup>a</sup> .....	88	96	76	95	81	89
Total margin .....	59	334	244	110	117	77

SOURCE: Previous tables, and Federación Nacional de Cafeteros, *Boletín de Estadística*, No. 38, Bogotá, Colombia.<sup>a</sup> Import price of 1.2 kg green coffee.

**Table 5**

COFFEE MARKETING COSTS FROM PORT OF UNLOADING TO RETAIL DISTRIBUTION STAGE, IN THE UNITED STATES AND IN THE EUROPEAN ECONOMIC COMMUNITY

	<i>Cents per kg of roasted coffee</i>
<i>United States (1960-61)</i>	
Net difference between c.i.f. import price and retail	59
<i>European Economic Community (1962)</i>	
Excluding import duties and all other taxes	
Belgium .....	103
Federal Republic of Germany.....	168
France .....	60
Italy .....	112
Luxembourg .....	118
Netherlands .....	76

SOURCE: Previous tables.

Table 6 shows the presumable gross receipts of the coffee trade in the European Economic Community countries in 1962, estimated on the basis of the foregoing margins.

In 1961 the United States of America imported 1,347,840 tons of green coffee, i.e., the equivalent of 1,123,200 tons of roasted coffee, or approximately twice the volume imported by the European Economic Community in 1962; on that quantity the gross marketing margin, computed at a rate of \$0.59 per kilogramme of roasted coffee and comprising all heads (including internal taxes), amounted to \$662,688,000, a sum almost equal to that accruing to the coffee trade from the marketing of half as large a volume in the countries of the Community. In other words, the marketing charges of the coffee trade in the Common Market countries were at least double those currently absorbed by its counterpart in the United States.

Some relationships can be established between the retail price, the level of consumption and national income. They are presented in table 7, the world's leading coffee market—the United States of America—being included for reference purposes.

**Table 6**

EUROPEAN ECONOMIC COMMUNITY: GROSS RECEIPTS OF COFFEE IMPORTERS AND MIDDLEMEN, 1962

<i>Country</i>	<i>Imports (tons)</i>		<i>Marketing margin</i>	
	<i>Green coffee</i>	<i>Roasted coffee</i>	<i>Per kg (dollars)</i>	<i>Aggregate (thousands of dollars)</i>
Belgium and Luxembourg .....	56 903	47 419	1.05	49 700
Federal Republic of Germany.....	233 474	194 561	1.68	326 800
France .....	208 316	173 596	0.60	124 900
Italy .....	110 728	92 273	1.12	103 300
Netherlands .....	63 257	52 714	0.76	40 000
TOTAL	672 678			644 700

SOURCES: Previous tables. Imports: Instituto Brasileiro do Café.

**Table 7**

Per capita NATIONAL INCOME, per capita COFFEE IMPORTS AND RETAIL PRICE OF ROASTED COFFEE IN THE UNITED STATES AND IN THE COUNTRIES MEMBERS OF THE EUROPEAN ECONOMIC COMMUNITY, 1962

<i>Country</i>	<i>Per capita national income (dollars)</i>	<i>Per capita coffee imports (kg)</i>		<i>Retail price of roasted coffee (dollars per kg)</i>	<i>Per capita expenditure (dollars)</i>	<i>Per capita expenditure as a percentage of income</i>
		<i>Green coffee</i>	<i>Roasted coffee</i>			
United States .....	2 280	7.9	6.6	1.47	9.70	4.25
Belgium .....	1 030	5.8	4.8	1.96	9.41	9.14
Federal Republic of Germany	1 150	4.1	3.4	4.30	14.62	12.71
France .....	1 190	4.4	3.7	2.05	7.58	6.37
Italy .....	610	2.2	1.8	3.20	5.76	9.44
Netherlands .....	910	5.4	4.5	1.66	7.47	8.21

SOURCES: Income: *Monthly Bulletin of Statistics*, United Nations Publication, September 1963. Imports and prices: Instituto Brasileiro do Café.

In the case of countries with comparable income levels (Belgium and Luxembourg, Federal Republic of Germany, France, and the Netherlands), consumption is in inverse ratio to retail prices. The United States figures are illustrative of the possible price, as well as of the level of potential demand, when the product reaches the consumer without unduly heavy intermediate costs.

### 3. PROJECTIONS OF DEMAND IN THE FEDERAL REPUBLIC OF GERMANY<sup>1</sup>

From Latin America's standpoint, special importance attaches to the projections of consumption for the Federal Republic of Germany presented in tables 8, 9 and 10, because of the size of the market in question and the severity of the taxes in force. An endeavour has therefore been made to estimate the behaviour of demand in relation to different income and price hypotheses. The calculations relating to Latin American coffee are based on the assumption that, *ceteris paribus*, its

<sup>1</sup> See the annex to the present article for an account of the basic data and the methodology used in the projections.

relative share in the market under consideration will remain the same as in recent years.<sup>2</sup>

The starting-point for the projections is the average retail price registered in 1962, adjusted to 1958 prices by application of the appropriate retail price index (base year 1958 = 100). The alternative prices considered are the result of subtracting from the base price (1962 adjusted) the equivalents of 20 per cent, 50 per cent and 100 per cent reductions in the existing taxes.

Income-elasticity was projected on the basis of annual *per capita* growth rates of 2.4 and 6 per cent. The population increment was computed by adjustment of the 1962 figures in accordance with the rate of demographic growth recorded in the 1953-60 period.

<sup>2</sup> That is, 84 per cent of total imports. This percentage had not yet been affected by the 9.6 per cent preference granted to the African associate members of the Community. The assumption that Latin America's 1962 share in the consumption will be maintained subsequently is therefore optimistic. There is a measure of justification for it, however, inasmuch as the Federal Republic of Germany consumes primarily mild-grade coffees (*Arabica*), which Africa produces on a very limited scale.

Table 8

FEDERAL REPUBLIC OF GERMANY: PROJECTION OF TOTAL IMPORTS OF GREEN COFFEE FOR 1970  
(Thousands of tons)

Reduction of taxes (percentages)	Increase in personal income (percentages)			
	0	2	4	6
0 .....	275	280	285	290
20 .....	310	315	320	325
50 .....	375	385	390	395
100 .....	565	575	585	595

Table 9

FEDERAL REPUBLIC OF GERMANY: PROJECTION OF IMPORTS OF GREEN COFFEE FROM LATIN AMERICA FOR 1970

(Volume: thousands of tons; c.i.f. value: millions of dollars)

Reduction of taxes (percentages)	Increase in personal income (percentages)							
	0		2		4		6	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
0 .....	230	210	235	215	240	220	245	225
20 .....	260	235	265	240	270	245	275	250
50 .....	320	290	325	295	330	300	335	305
100 .....	475	435	485	440	495	450	500	455

Table 10

FEDERAL REPUBLIC OF GERMANY: PROJECTION OF TAX REVENUE FOR 1970, IF EXISTING TAXES ARE MAINTAINED OR ARE REDUCED BY 20, 50 AND 100 PER CENT

(Millions of dollars at 1958 prices)

Reduction of taxes (percentage)	Increase in personal income (percentage)			
	0	2	4	6
0 .....	375	385	390	395
20 .....	340	345	351	355
50 .....	260	265	268	270
100 .....	—	—	—	—

According to the comparative figures presented in table 11, if the Federal Republic of Germany were to reduce its tax revenue by \$122 million, it would enable the coffee-exporting countries to increase their income by \$100 million. Moreover, this reduction would directly benefit the German coffee consumer.

Alternatively, if industrial processing and distribution costs plus profit margins were cut by 50 per cent, so as to approximate to those prevailing in France, the Netherlands or the United States (see again tables 2 and 4 above), demand would react approximately as shown in table 12.

**Table 11**

FEDERAL REPUBLIC OF GERMANY: COMPARISON OF TOTAL IMPORT VALUES AND TAX REVENUE FROM IMPORTS OF COFFEE, AS ESTIMATED FOR 1970<sup>a</sup>  
(Average c.i.f. prices in 1962)

	Tax revenue (millions of dollars)	Volume (thousands of tons)	C.i.f. values (millions of dollars)
100 per cent of existing taxes .....	390	280	255
50 per cent of existing taxes .....	268	390	355
<i>Difference</i> .....	-122	+110	+100

<sup>a</sup> On the assumption of a 50 per cent reduction in tax revenue deriving from coffee imports.

**Table 12**

FEDERAL REPUBLIC OF GERMANY: PROJECTION OF TOTAL IMPORT DEMAND FOR GREEN COFFEE IN 1970<sup>a</sup>  
(Average c.i.f. import prices in 1962)

	Estimated imports	
	Volume (thousands of tons)	Value (millions of dollars)
Taxes and marketing margin at the 1962 level.....	280	255
Taxes and marketing margin reduced by 50 per cent.....	580	530
<i>Difference</i> .....	+300	+275

<sup>a</sup> On the assumption that the taxes and marketing margins registered in 1962 (see table 2 above) will be reduced by 50 per cent and that the full benefit of the reduction will be passed on to the retail price.

#### 4. CONCLUSIONS

The taxes in force in some countries constitute a serious obstacle to the expansion of demand for coffee. In the special case of the Federal Republic of Germany and Italy, they exceed the c.i.f. value of the imports concerned.

The argument commonly adduced to justify taxation on other imports of agricultural commodities—i.e., the need to protect domestic production—does not hold good here. Generally speaking, moreover, the duties in question were established with a view to safeguarding the balance of payments in the period immediately following the war, when it was necessary to reconstitute monetary reserves which were scanty at that time, but which increased considerably in the last five years under review.

Intermediate costs marketing, distribution and industrial processing costs, plus profit margins, were also higher, in most cases, than the c.i.f. price of coffee; the differences observable in the structure of these costs are surprising in view of the degree of homogeneity towards which the EEC countries are rapidly moving by virtue of the integration process in which they are all taking part.

In some countries middlemen's profits are unduly high, to the disadvantage of producers and consumers alike.

The adjustment of taxes and of excessive intermediate costs is of particular importance for the coffee-exporting countries, destined as they are to gain by the expansion of consumption that would be promoted if the benefit of such adjustments were passed on to retail prices.

The following objectives advocated in the Charter of Alta Gracia (in January 1964) with respect to this and other tropical products are therefore understandable:

"The high internal taxes that the industrial countries normally apply to the consumption of tropical commodities severely limit expansion of demand, and deprive the developing countries of valuable opportunities to increase their exports. Consequently the aim should be to abolish these taxes no later than 31 December 1965.

"As soon as possible a detailed study by experts should be undertaken, on the reasons for the high costs in some industrial countries of processing and marketing certain tropical products exported by Latin America, with a view to suggesting measures to avoid mark-ups considered as excessive."

## Appendix

### PROJECTIONS OF DEMAND FOR COFFEE IN THE FEDERAL REPUBLIC OF GERMANY IN 1970

In order to estimate the effect of the various factors which help to determine coffee consumption, it was necessary to choose a model which defined the relationships between the dependent variable and the independent correlative factors. On the pattern of similar studies, an equation was selected of which the terms were the squares of minimum demand figures. The independent variables in this equation were *per capita* income in the Federal Republic of Germany and the retail price of coffee in the period 1952-62 (see appended table). Only these two variables were used because they alone were susceptible of quantification.<sup>1</sup>

It was assumed that consumption would absorb imports of green coffee in their entirety, or, in other words, that stocks would not be maintained.

With these reservations, the model was defined as follows:

$$\log C = a + p \log P + i \log I$$

This equation is based on straight regression curves on a double logarithmic scale, which implies the assumption that price- and income-elasticities are constant in the whole field of price and income levels. The model has the limitation that the

<sup>1</sup> Demand is also sensitive to changes in consumer tastes and preferences, the effects of substitute products, income distribution, etc. but these variables cannot be quantified. Although some writers sum them up under the single head of "momentum", no attempt was made to compute such a variable in the present instance on account of a number of limitations in the basic data.

elasticities are the result of taking the first derivatives in respect of price and income.

$$\log C' (\log P) = p$$

$$\log C' (\log I) = i$$

#### Regression analysis measures

Determination coefficient .....	R <sup>2</sup> c.PI =	0.98733
Correlation coefficient .....	R <sub>c</sub> .PI =	0.9936
Typical estimating error.....	S <sub>c</sub> .PI =	0.00661
Price-elasticity .....	P =	-1.49248
Income-elasticity .....	i =	0.10109
Regression equation:		

$$\log C = 0.86875 - 1.49248 \log P + 0.10109 \log I$$

The population projection was based on the demographic growth rate registered during the period 1953-60, which was 1.2 per cent per annum.

Latin America's share in the coffee imports of the Federal Republic of Germany was calculated as an arithmetic mean for the period 1956-59.

Green coffee prices and income were expressed in terms of 1958 values. This choice was determined by the fact that 1958 was the base year for the computation of the cost-of-living index in the Federal Republic of Germany.

#### Annex

#### FEDERAL REPUBLIC OF GERMANY: *Per capita* IMPORTS OF GREEN COFFEE, CONSUMER PRICE OF ROASTED COFFEE AND PERSONAL INCOME, 1952-62

(Marks at 1958 prices)

Year	<i>Imports of green coffee (kilogrammes per capita)</i>	<i>Price of roasted coffee (per kilogramme)</i>	<i>Per capita income</i>
1952 .....	1.17	34.57	2 252
1953 .....	1.60	31.08	2 456
1954 .....	2.09	24.56	2 625
1955 .....	2.39	22.76	2 928
1956 .....	2.66	21.56	3 119
1957 .....	2.99	21.02	3 293
1958 .....	3.06	19.40	3 413
1959 .....	3.54	17.86	3 600
1960 .....	3.74	17.27	4 024
1961 .....	3.92	16.60	4 232
1962 .....	4.27	15.78	4 354

SOURCE: Coffee imports and prices: FAO, *World Coffee Economy* (Commodity Series No. 33) and Instituto Brasileiro do Café, Hamburg Office; *per capita* income: IMF, *International Financial Statistics*.

# THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

(Geneva, Switzerland, 23 March to 16 June 1964)

Delegations from 120 countries attended the United Nations Conference on Trade and Development, which was held at Geneva from 23 March to 16 June of the current year, after a period of preparatory work of which some account has been given in this *Bulletin*.<sup>1</sup> The repercussions of the Geneva Conference—which elected as its President Mr. Abdel Moneim El-Kaissoni, Vice-President of the United Arab Republic, and at which Mr. Raúl Prebisch, Director-General of the Latin American Institute for Economic and Social Planning, acted as Secretary-General—unquestionably make it an event of world importance in the economic sphere.

The ECLA secretariat played an active part in the preliminary formulation of the views to be put forward by Latin America at the Geneva Conference. In compliance with ECLA resolution 221 (X), it prepared a document entitled *Latin America and the United Nations Conference on Trade and Development* (E/CN.12/693), analysing the main problems of Latin America's external sector in relation to the existing structure of world trade. This study served as the background document for a Meeting of Latin American Government Experts on Trade Policy, which was held at Brasilia, from 20 to 25 January 1964, and at which a series of conclusions was adopted, at the technical level, as to the position that Latin America should take up at the Conference.<sup>2</sup>

Subsequently, within the framework of the Organization of American States (OAS), these principles were reviewed by representatives of the Latin American Governments at Alta Gracia, Argentina, and afforded the bases for the Charter of Alta Gracia. This in turn constituted a formal agreement among nineteen Latin American countries on the concerted position they would adopt at the Conference.

The ECLA secretariat was represented at the Geneva Conference by the Executive Secretary, the Deputy Executive Secretary and three senior members of staff from its principal Divisions.

The work of the Conference was divided among five committees of the whole, which covered the agenda as follows:

## *Committee One: International commodity problems*

(a) Review of the long-term trends and prospects for primary commodity producers (including terms of trade);

(b) Measures and actions for the removal of obstacles (tariff, non-tariff and other) and of discriminatory prac-

<sup>1</sup> See the Informative Note published in the *Economic Bulletin for Latin America*, vol. VIII, No. 2, 1963, in which the background data and agenda for the Conference are reproduced.

<sup>2</sup> See *Economic Bulletin for Latin America*, vol. IX, No. 1, 1964.

tices, and for the expansion of market opportunities for primary commodity exports and for increases in their consumption and imports in developed countries;

(c) Measures and actions for the promotion of trade in primary commodities among developing countries;

(d) Measures for stabilization of primary commodity markets at equitable and remunerative prices, including commodity arrangements;

(e) International compensatory financing and measures for stabilization of primary export earnings at adequate levels.

## *Committee Two: Trade in manufactures and semi-manufactures*

(a) Measures and action for diversification and expansion of the exports of manufactures and semi-manufactures by developing countries with a view to increasing their share in world trade;

(b) Measures for the expansion of markets of the developed countries for exports of manufactures and semi-manufactures of developing countries.

## *Committee Three: Improvement of invisible trade of developing countries and financing for an expansion of international trade*

## *Committee Four: Institutional arrangements, methods and machinery to implement measures relating to the expansion of international trade*

(a) Re-appraisal of the effectiveness of the existing international bodies dealing with international trade in meeting trade problems of developing countries;

(b) The advisability of eliminating overlapping and duplication by co-ordination or consolidation of the activities of such bodies or by effecting such organizational improvements and initiatives as may be needed.

## *Committee Five: Implications of regional economic groupings for the trade and development of the developing countries, and expansion of international trade and its significance for economic development*

The Alta Gracia Group of Latin American countries consolidated its position with that of the African and Asian countries; it was thus possible to constitute a grouping of 75 developing countries which presented a united front in relation to all the agenda items. The following were the basic points of their platform:

(a) The progressive elimination of restrictions on imports of basic commodities from the developing countries and of internal taxes on consumption of such products;

(b) The corresponding reconsideration of agricultural production policies based on subsidies, in the developed countries;

(c) The conclusion of multilateral agreements on basic commodities designed to stabilize or improve prices of such products, in favour of the developing countries;

(d) The abolition of quantitative restrictions applied by developed countries to imports of manufactured and semi-manufactured products from the developing countries, and the establishment of a preferential tariff system, on a non-reciprocal basis, in favour of the developing countries;

(e) The adoption of principles relating to international financial assistance for the developing countries which would ensure that such assistance would be given with the aim of enabling the countries in question to implement their development programmes on systematic lines;

(f) Compensatory financing, at the multilateral level, for the losses suffered by the developing countries as a result of decreases in the prices of their exports;

(g) Improvement of world trade transport conditions, especially in the shipping sector;

(h) The expansion of trade between the developing countries and the centrally-planned economies, on the basis of an undertaking on the latter's part to increase their purchases from the former, and to adopt such decisions, within their development programmes and their administrative and exchange practices, as might be necessary to ensure greater flexibility and effectiveness in their bilateral relations with the developing countries;

(i) The establishment of institutional machinery for the specific purpose of studying and propounding solutions for the trade and development problems of the developing countries.

As regards most of these points, serious difficulties were encountered in inducing the developed countries to adopt them. On most of them too, however, the Conference unanimously reached a measure of agreement which, although it did not fully satisfy the aspirations of the developing countries, represents an important step forward in a process of negotiation which is only just beginning.

The Conference adopted 59 recommendations, 29 of them unanimously.<sup>3</sup> Among the remainder there were several—especially in the field of financing questions—which obtained the support of most although not all of the developed countries. The recommendations that were unanimously adopted include those whose scope and significance is probably greatest. One relates to improved access to world markets for basic commodities and to the use of commodity arrangements to stabilize and improve prices; another concerns the expansion of access to markets for manufactured and semi-manufactured products from the developing countries; another envisages the possible creation of a system of preferences in favour of manufactured and semi-manufactured products from the developing countries; and yet another makes provision for new institutional machinery geared to the expansion of international trade.

This last must be regarded as one of the most decisive and important results of the Conference. It ensures that the study of the trade problems of the developing countries will be continued and institutionalized with the aim of formulating concrete solutions in favour of the countries concerned. In view of its special interest, the text of this recommendation on institutional organization is reproduced below.

<sup>3</sup> For the text of all the recommendations adopted, see the *Final Act* of the Conference (E/CONF.46/L.28), 16 June 1964.

## INSTITUTIONAL ARRANGEMENTS, METHODS AND MACHINERY TO IMPLEMENT MEASURES RELATING TO THE EXPANSION OF INTERNATIONAL TRADE<sup>4</sup>

### *The Conference,*

*Convinced* that sustained efforts are necessary to raise the standards of living in all countries and to accelerate the economic growth of developing countries,

*Considering* that international trade is an important instrument for economic development,

*Recognizing* that this Conference has provided a unique opportunity to make a comprehensive review of the problems of trade and of trade in relation to economic development, particularly those problems affecting the developing countries,

*Convinced* that adequate and effectively functioning organizational arrangements are essential if the full contribution of international trade to the accelerated economic growth of the developing countries is to be successfully realized through the formulation and implementation of the necessary policies,

*Having examined* the operation of existing international institutions and recognizing both their contribu-

tions and their limitations in dealing with all the problems of trade and related problems of development,

*Believing* that participating Governments should make the most effective use of institutions and arrangements to which they are or may become parties,

*Convinced* that, at the same time, there should be a further review of both the present and the proposed institutional arrangements, in the light of the experience of their work and activities,

*Taking note* of the widespread desire among developing countries for a comprehensive trade organization, and

*Recognizing* that further institutional arrangements are necessary in order to continue the work initiated by this Conference and to implement its recommendations and conclusions,

*Recommends* to the General Assembly of the United Nations that it adopt at its nineteenth session the following provisions:

1. The present United Nations Conference on Trade and Development, hereinafter referred to as the Con-

<sup>4</sup> See *Final Act*, op. cit., annex A.V.1.

ference, shall be established as an organ of the General Assembly. The members of the Conference shall be those States which are members of the United Nations, the specialized agencies or the International Atomic Energy Agency.

2. The Conference shall be convened at intervals of not more than three years. The General Assembly shall determine the date and location of the sessions of the Conference, taking into account the recommendations of the Conference or the Trade and Development Board, established under paragraph 4 below, hereinafter called the Board.

3. The principal functions of the Conference shall be:

(a) To promote international trade, especially with a view to accelerating economic development, particularly trade between countries at different stages of development, between developing countries and between countries with different systems of economic and social organization, taking into account the functions performed by existing international organizations;

(b) To formulate principles and policies on international trade and related problems of economic development;

(c) To make proposals for putting the said principles and policies into effect and to take such other steps within its competence as may be relevant to this end, having regard to differences in economic systems and stages of development;

(d) Generally, to review and facilitate the co-ordination of activities of other institutions within the United Nations system in the field of international trade and related problems of economic development and in this regard to co-operate with the General Assembly and the Economic and Social Council in respect to the performance of their Charter responsibilities for co-ordination;

(e) To initiate action, where appropriate, in co-operation with the competent organs of the United Nations, for the negotiation and adoption of multilateral legal instruments in the field of trade, with due regard to the adequacy of existing organs of negotiation and without duplication of their activities;

(f) To be available as a centre for harmonizing the trade and related development policies of Governments and regional economic groupings in pursuance of Article I of the United Nations Charter; and

(g) To deal with any other matters within the scope of its competence.

#### TRADE AND DEVELOPMENT BOARD

##### *Composition*

4. A permanent organ of the Conference, to be known as the Trade and Development Board, shall be established as part of the United Nations machinery in the economic field.

5. The Board shall consist of 55 members elected by the Conference from among its membership. In electing the members of the Board, the Conference shall have full regard for both equitable geographical distribution and the desirability of continuing representation for the principal trading States, and shall accordingly observe the following distribution of seats:

- (i) 22 from the States listed in Annex I;
- (ii) 18 from the States listed in Annex II;
- (iii) 9 from the States listed in Annex III;
- (iv) 6 from the States listed in Annex IV.

6. The list of States in the annexes shall be reviewed periodically by the Conference in the light of changes in membership of the Conference and other factors.

7. The members of the Board shall be elected at each regular session of the Conference, except that the first Board shall be elected in accordance with item (a) of paragraph 32 on Transitional Provisions, below. The members of the Board shall hold office until the election of their successors.

8. Retiring members shall be eligible for re-election.

9. Each member of the Board shall have one representative with such alternates and advisers as may be required.

10. The Board shall invite any member of the Conference to participate, without vote, in its deliberations on any matter of particular concern to that member.

11. The Board may make arrangements for representatives of the inter-governmental bodies referred to in paragraphs 18 and 19 to participate, without vote, in its deliberations and in those of the subsidiary bodies and working groups established by it. Such participation may also be offered to non-governmental organizations concerned with matters of trade and of trade as related to development.

12. The Board shall adopt its own rules of procedure.

13. It shall meet as required in accordance with its rules. It shall normally meet twice in any particular year.

##### *Functions*

14. When the Conference is not in session the Board shall carry out the functions that fall within the competence of the Conference.

15. In particular, it shall keep under review and take appropriate action within its competence for the implementation of the recommendations, declarations, resolutions and other decisions of the Conference and to ensure the continuity of its work.

16. It may make or initiate studies and reports in the field of trade and related problems of development.

17. It may request the Secretary-General of the United Nations to prepare such reports, studies or other documents as it may deem appropriate.

18. It shall, as required, make arrangements to obtain reports from and establish links with inter-governmental bodies whose activities are relevant to its functions. In order to avoid duplication it shall avail itself, whenever possible, of the relevant reports made to the Economic and Social Council and other United Nations bodies.

19. It shall establish close and continuous links with the regional economic commissions of the United Nations and it may establish such links with other relevant regional inter-governmental bodies.

20. In its relations with organs and agencies within the United Nations system, the Board shall act in conformity with the responsibilities of the Economic and Social Council under the United Nations Charter, par-

ticularly those of co-ordination, and with the relationship agreements with the agencies concerned.

21. It shall serve as a preparatory committee for future sessions of the Conference. To that end, it shall initiate the preparation of documents, including a provisional agenda, for consideration by the Conference, as well as make recommendations as to the appropriate date and place for its convening.

22. It shall report to the Conference and it shall also report annually on its activities to the General Assembly through the Economic and Social Council. The Economic and Social Council may transmit such comments on the reports as it may deem necessary to the General Assembly.

23. The Board shall establish such subsidiary organs as may be necessary to the effective discharge of its functions. It shall establish, in particular, the following committees:

(i) A committee on commodities which, *inter alia*, will carry out the functions which are now performed by the Commission on International Commodity Trade and the Interim Co-ordinating Committee for International Commodity Arrangements (ICCICA). In this connexion ICCICA shall be maintained as an advisory body of the Board;

(ii) A committee on manufactures;

(iii) A committee on invisibles and financing related to trade. The Board shall give special consideration to the appropriate institutional means for dealing with problems of shipping, and shall take into account the recommendations contained in Annexes A.IV.21 and A.IV.22.<sup>5</sup>

The terms of reference of the latter two subsidiary bodies and any other subsidiary organs established by the Board shall be adopted after consultation with the appropriate organs of the United Nations and shall take fully into account the desirability of avoiding duplication and overlapping of responsibilities. In determining the size of the subsidiary organs and in electing their members, the Board shall take fully into account the desirability of including in the membership of these bodies member States with a special interest in the subject matter to be dealt with by them. It may include any member State of the Conference whether or not that State is represented on the Board.

The Board will determine the terms of reference and rules of procedure of its subsidiary organs.

#### VOTING

24. Each State represented at the Conference shall have one vote. Decisions of the Conference on matters of substance, subject to the decision of the General Assembly on the provisions of paragraph 25, shall be taken by a two-thirds majority of the representatives present and voting. Decisions of the Conference on matters of procedure shall be taken by a majority of the representatives present and voting.

Decisions of the Board shall be taken, subject to the decision of the General Assembly on the provisions of

paragraph 25, by a simple majority of the representatives present and voting.

#### PROCEDURES

25. It is recommended that the provisions of this paragraph shall be determined by the General Assembly at its nineteenth session after consideration by it of the report and the proposals to be made by a Special Committee to be appointed by the Secretary-General of the United Nations, as indicated in item (d) of the Transitional Provisions.

The terms of reference of this Special Committee would be as follows:

(a) The task of the Committee shall be to prepare proposals for procedures within the continuing machinery designed to establish a process of conciliation to take place before voting and to provide an adequate basis for the adoption of recommendations with regard to proposals of a specific nature for action substantially affecting the economic or financial interests of particular countries;

(b) Such conciliation may be carried out through a system of conciliation committees, the good offices of the Secretary-General of the Conference, or any other means within the framework of the United Nations;

(c) In devising the procedures referred to above the Committee shall take into consideration that the interested States may wish to place on record and to publicize their views. It shall also take into account the desirability of issuing reports at appropriate times which would state the areas of agreement and disagreement and the explanation of positions as regards, in particular, the implementation of proposed recommendations;

(d) The Committee should also consider the desirability of applying appropriate procedures to proposals involving changes in the fundamental provisions of this resolution; and

(e) Any Government participating in this Conference may submit to the Special Committee such proposals and recommendations as it considers relevant to sub-section (a) above, provided they do not imply any amendment to the Charter of the United Nations or any departure from the principle that each country has one vote. The Special Committee shall include a study of such proposals and recommendations in its report to the General Assembly.

#### SECRETARIAT

26. Arrangements shall be made, in accordance with Article 101 of the Charter, for the immediate establishment of an adequate, permanent and full-time secretariat within the United Nations Secretariat for the proper servicing of the Conference, the Board and its subsidiary bodies.

27. The secretariat shall be headed by the Secretary-General of the Conference who shall be appointed by the Secretary-General of the United Nations and confirmed by the General Assembly.

28. Adequate arrangements shall be made by the Secretary-General of the United Nations for close co-operation and co-ordination between the secretariat of the Conference and the Department of Economic and Social Affairs, including the secretariats of the regional

<sup>5</sup> Recommendations on "Shipping questions" (annex A.IV.21) and "Bases for a common measure of understanding on shipping questions" (annex A.IV.22).

economic commissions, and other appropriate units of the United Nations Secretariat, as well as with the secretariats of the specialized agencies.

#### FINANCIAL ARRANGEMENTS

29. The expenses of the Conference, its subsidiary bodies and secretariat, shall be borne by the regular budget of the United Nations which shall include a separate budgetary provision for such expenses.

In accordance with the practice followed by the United Nations in similar cases, arrangements shall be made for assessments on States non-members of the United Nations which participate in the Conference.

#### FUTURE INSTITUTIONAL ARRANGEMENTS

30. The Conference will review in the light of experience the effectiveness and further evolution of institutional arrangements with a view to recommending such changes and improvements as might be necessary.

31. To this end it will study all relevant subjects including matters relating to the establishment of a comprehensive organization, based on the entire membership of the United Nations system of organizations, to deal with trade and with trade in relation to development.

#### TRANSITIONAL PROVISIONS

32. *The Conference further recommends that:*

(a) The members of the Board elected by the present Conference commence their terms after this resolution has been duly approved by the General Assembly at its next session;

(b) The next session of the Conference be held early in 1966;

(c) The Secretary-General of the United Nations submit to the nineteenth session of the General Assembly a report on the financial implications of the above recommendations, as well as concrete suggestions as to the allocation of expenditure among all the States entitled to participate in the Conference;

(d) The Secretary-General of the United Nations appoint the Special Committee referred to in paragraph 25. The Committee shall be representative of the main interests and trends of opinion involved in the matter. The Committee shall be small in size and the Secretary-General shall select its members on an equitable geographical basis, after consultation with their respective Governments.

### Annexes

#### Annex I

##### *List of States indicated in paragraph 5(i)*

- |                             |                          |
|-----------------------------|--------------------------|
| 1. Afghanistan              | 10. China                |
| 2. Algeria                  | 11. Congo (Brazzaville)  |
| 3. Burma                    | 12. Congo (Leopoldville) |
| 4. Burundi                  | 13. Dahomey              |
| 5. Cambodia                 | 14. Ethiopia             |
| 6. Cameroon                 | 15. Gabon                |
| 7. Central African Republic | 16. Ghana                |
| 8. Ceylon                   | 17. Guinea               |
| 9. Chad                     | 18. India                |
|                             | 19. Indonesia            |

- |                         |                             |
|-------------------------|-----------------------------|
| 20. Iran                | 41. Pakistan                |
| 21. Iraq                | 42. Philippines             |
| 22. Israel              | 43. Rwanda                  |
| 23. Ivory Coast         | 44. Saudi Arabia            |
| 24. Jordan              | 45. Senegal                 |
| 25. Kenya               | 46. Sierra Leone            |
| 26. Korea (Republic of) | 47. Somalia                 |
| 27. Kuwait              | 48. South Africa            |
| 28. Laos                | 49. Sudan                   |
| 29. Lebanon             | 50. Syria                   |
| 30. Liberia             | 51. Tanganyika and Zanzibar |
| 31. Libya               | 52. Thailand                |
| 32. Madagascar          | 53. Togo                    |
| 33. Malaysia            | 54. Tunisia                 |
| 34. Mali                | 55. Uganda                  |
| 35. Mauritania          | 56. United Arab Republic    |
| 36. Mongolia            | 57. Upper Volta             |
| 37. Morocco             | 58. Viet-Nam (Republic of)  |
| 38. Nepal               | 59. Western Samoa           |
| 39. Niger               | 60. Yemen                   |
| 40. Nigeria             | 61. Yugoslavia              |

#### Annex II

##### *List of States indicated in paragraph 5(ii)*

- |                                |                              |
|--------------------------------|------------------------------|
| 1. Australia                   | 15. Liechtenstein            |
| 2. Austria                     | 16. Japan                    |
| 3. Belgium                     | 17. Luxembourg               |
| 4. Canada                      | 18. Monaco                   |
| 5. Cyprus                      | 19. Netherlands              |
| 6. Denmark                     | 20. New Zealand              |
| 7. Federal Republic of Germany | 21. Norway                   |
| 8. Finland                     | 22. Portugal                 |
| 9. France                      | 23. San Marino               |
| 10. Greece                     | 24. Spain                    |
| 11. Holy See                   | 25. Sweden                   |
| 12. Iceland                    | 26. Switzerland              |
| 13. Ireland                    | 27. Turkey                   |
| 14. Italy                      | 28. United Kingdom           |
|                                | 29. United States of America |

#### Annex III

##### *List of States indicated in paragraph 5(iii)*

- |                       |                         |
|-----------------------|-------------------------|
| 1. Argentina          | 12. Haiti               |
| 2. Bolivia            | 13. Honduras            |
| 3. Brazil             | 14. Jamaica             |
| 4. Chile              | 15. Mexico              |
| 5. Colombia           | 16. Nicaragua           |
| 6. Costa Rica         | 17. Panama              |
| 7. Cuba               | 18. Paraguay            |
| 8. Dominican Republic | 19. Peru                |
| 9. Ecuador            | 20. Trinidad and Tobago |
| 10. El Salvador       | 21. Uruguay             |
| 11. Guatemala         | 22. Venezuela           |

#### Annex IV

##### *List of States indicated in paragraph 5(iv)*

- |                     |  |
|---------------------|--|
| 1. Albania          | 6. Poland                              |
| 2. Bulgaria         | 7. Romania                             |
| 3. Byelorussian SSR | 8. Ukrainian SSR                       |
| 4. Czechoslovakia   | 9. Union of Soviet Socialist Republics |
| 5. Hungary          |  |

## RECENT ACTIVITIES OF ECLA

### I

#### FOURTH SESSION OF THE TRADE COMMITTEE\*

(Santiago, Chile, 9 to 13 November 1964)

The ECLA Trade Committee held its fourth session<sup>1</sup> at Santiago, Chile, from 9 to 13 November 1964. It was attended by representatives of twenty-four member States of the Commission, namely, Argentina, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, France, Guatemala, Honduras, the Kingdom of the Netherlands, Mexico, Nicaragua, Paraguay, Peru, Trinidad and Tobago, the United Kingdom, the United States, Uruguay and Venezuela. Also participating in the session in a consultative capacity were representatives of three States members of the United Nations, not members of the Commission (Hungary, Italy and Poland) and of two States not members of the United Nations (the Federal Republic of Germany and Switzerland). Organizations represented were a specialized agency (the Food and Agriculture Organization of the United Nations), several inter-governmental agencies (the Latin American Free-Trade Association, the Inter-American Development Bank, the Inter-American Committee on the Alliance for Progress and the Organization of American States), and a non-governmental body (the Centre for Latin American Monetary Studies). Senior officials of the Latin American Institute for Economic and Social Planning also attended, and observers from the European Economic Community and European Coal and Steel Community were present by special invitation.

The opening addresses were delivered by Mr. Gabriel Valdés, the Minister for Foreign Affairs of Chile, Mr. Mario Tancredo Borges da Fonseca, representative of Brazil, and Mr. José Antonio Mayobre, Executive Secretary of the Commission. During the first working meeting, an important statement on the results of the United Nations Conference on Trade and Development was made by Mr. Raúl Prebisch, Secretary-General of the Conference.

At the closing meeting, speeches were made by Mr. Mayobre, Mr. Plácido García Reynoso, representative of Mexico, and Mr. Domingo Santa María, Minister for Economic Affairs, Development and Reconstruction of

Chile. A cable was read out from Mr. Carlos Sans de Santa María, Chairman of the Inter-American Committee on the Alliance for Progress, conveying greetings to the Trade Committee and expressing good wishes for the success of its work.

The officers of the Committee were Mr. Domingo Santa María (Chile) as Chairman, Mr. Edgardo Seoane (Peru) and Mr. Gilberto Secaira (Guatemala) as First and Second Vice-Chairman respectively, and Mr. Benito Raúl Losada (Venezuela) as Rapporteur.

The main purpose of the Trade Committee session was to evaluate the results of the United Nations Conference on Trade and Development, held from March to June 1964 at Geneva, and then to make specific recommendations to the Latin American Governments on the trade policy that they should follow in the light of those results.

With those ends in view, the topics discussed were commodity trade, trade in manufactures and semi-manufactures, trade and development financing, trade in invisibles, the institutional machinery agreed upon at the Geneva Conference and the intensification of reciprocal trade among the developing countries. As a closely related item, the situation and recent trends of Latin American economic integration and of the essential internal measures that together would be most likely to expedite the economic and social development of the region,<sup>2</sup> were also considered.

The different agreements adopted by the Trade Committee on the above-mentioned subjects were combined in the following resolution:

#### 18(IV) INTERNATIONAL TRADE, DEVELOPMENT AND INTEGRATION

##### I

##### LINES OF ACTION WITH RESPECT TO TRADE AND DEVELOPMENT

The ECLA Trade Committee, in view of the urgent need to ensure that the recommendations adopted at the United Nations Conference on Trade and Development are implemented in the fullest, most specific and expeditious way possible, and that they are improved and supplemented;

<sup>2</sup> The working papers used for the discussions were *The United Nations Conference on Trade and Development—Analysis of the results and prospects for Latin America* (E/CN.12/C.1/21) and *Note by the secretariat on the Commission's activities in the field of economic integration* (E/CN.12/C.1/22).

\* See the Committee's report (E/CN.12/C.1/23/Rev.1).

<sup>1</sup> The earlier sessions of the Trade Committee, which was set up pursuant to resolution 101 (VI) of the Economic Commission for Latin America, were held at Santiago, Chile, from 19 to 29 November 1956, at Panama City from 11 to 19 May 1959 and again at Santiago from 8 to 12 May 1961. The respective reports were published by the United Nations as part of the following documents: *Inter-Latin American Trade: Current Problems* (Sales No.: 57.II.G.5), *The Latin American Common Market* (Sales No.: 59.II.G.4) and *Multilateral Economic Co-operation in Latin America* (Sales No.: 62.II.G.3).

Conscious of the need for every effort to be made to foster the unity of the Latin American countries among themselves and with the other developing countries, towards which the first step had been taken at Geneva, in order to achieve such vital objectives for the economic future of the Latin American countries as easier access for their primary commodities to world markets and better prices for such commodities; an improvement in the terms of trade; the intensification and geographical diversification of their exports of manufactures and semi-manufactures; external financial co-operation, on a scale and on terms sufficient to aid in maintaining a satisfactory rate of economic and social development; the solution of their international transport problems and of other invisible items in their balances of payments, all of which are essential if the gap between their current export earnings prospects and their need to import for development is to be bridged.

Likewise, in view of the pressing need to promote vigorous internal action in the Latin American countries with a view to organizing and intensifying their production so as to enable them to take the greatest possible advantage of the new conditions by which international trade should be governed.

*Decides:*

#### A. General evaluation of the Conference

1. *To declare its dissatisfaction* with the results achieved by the Conference on Trade and Development, while recognizing that they represent some advance in terms of the principles that can serve as a basis for a more equitable organization of world trade.

2. *To note* with keen interest the secretariat document entitled *The United Nations Conference on Trade and Development: analysis of the results and prospects for Latin America* (E/CN.12/C.1/21).

3. *To express* its deepest concern at the unilateral decisions taken by some developed countries since the United Nations Conference on Trade and Development, as they are contrary to the spirit and philosophy recognized by all the States signatories of the Final Act of the Conference and adversely affect the corresponding resolutions, particularly point 2 of the second part of recommendation A.II.1 on *standstill*. These decisions include: (a) the delay in adopting the additional measures needed for effective operation of international commodity arrangements, negotiations in respect of which have already been concluded; (b) the application of new tariff measures which limit exports of products from developing countries; (c) the imposition of quantitative restrictions on trade in commodities of interest to the developing countries.

4. *To transmit* Part I.A. of the present resolution to the Group of Seventy-seven developing countries in New York in order that they may consider it and bring it to the attention of the United Nations General Assembly.

#### B. Internal measures

5. *To recommend* to Governments that, while continuing their efforts to achieve a different structure of world trade in line with the developing countries' proposals at the United Nations Conference on Trade and Development, and with a view to turning to really effective account the international action being taken in this

sense, they intensify their internal efforts on the basis of measures such as the following:

(a) Stimulating savings and domestic investment, mobilizing the latter in terms of national and regional development plans;

(b) Promoting the structural and institutional reforms necessary for full and efficient use to be made of each country's production potential and of external financing resources;

(c) Encouraging action to rationalize production and distribution with a view to increasing productivity and income, and avoiding undesirable disequilibria between supply and demand, at the national, regional and world levels;

(d) Creating the requisite conditions to facilitate the establishment and expansion of export industries on a competitive footing;

(e) Formulating and putting into practice specific export policies, including promotional measures, and others of a monetary, exchange, fiscal, administrative and legislative nature.

6. *To make it clear* that the Committee, in stressing the urgent need for national action on the lines described, does not in any way intend to imply that the measures sought in the external sector are necessarily contingent upon internal decisions, since these in many cases are only feasible through international co-operation.

7. *To instruct* the secretariat of ECLA, in co-operation with other competent international agencies, to give the Latin American Governments whatever co-operation they require, and to carry out the studies which might be useful in complying with this aim.

#### C. Commodity Trade

8. *To recommend* to the Government of the developing States Members of ECLA:

(a) That, not later than thirty days after the establishment of the Commission on Commodity Arrangements and Policies,\* they present lists of export commodities of interest to their economies. These lists should be consolidated by the Commission, in co-operation with the Food and Agriculture Organization of the United Nations (FAO) and the Regional Economic Commissions. The resulting general list should be submitted forthwith to the Trade and Development Board for the purpose of applying the provisions of section II of recommendation A.II.1. The liberalization measures shall not be confined to the commodities included in the aforementioned general list.

(b) That they direct the Trade and Development Board to determine the exceptional circumstances under which the developed countries can, in the case of certain commodities, depart from the commitments relating to the liberalization of commodity trade, and to establish the appropriate consultation machinery with the aim of preventing adverse repercussions on the developing countries.

(c) That the Commission on Commodity Arrangements and Policies ascertain, as accurately as possible,

\* All references to the Commission on Commodity Arrangements and Policies will be understood to mean the Commission proposed in the Final Act of the United Nations Conference on Trade and Development or any other equivalent agency that may be set up.

the position with regard to commodity trade at the date of adoption of the Final Act by the Geneva Conference, in order to ensure application of the clause concerning the standstill.

(d) That, in regard to tariff and other charges levied on commodities and taking into account the various commitments undertaken with respect to the different types of commodities referred to in item 3, section II, of recommendation A.II.1, the Commission on Commodity Arrangements and Policies define the percentage, and rates of, reduction compatible with the meaning of the terms (such as "substantially", "at the earliest possible date", etc.) used in the said recommendation and likewise consider to the best way of affecting the reduction.

(e) That the Commission on Commodity Arrangements and Policies define the quantitative restrictions which ought to be abolished, propose a schedule for their elimination and establish procedures facilitating an increase in the commodity exports from developing countries, particularly in relation to the growth of the developed countries' markets.

(f) That the Commission on Commodity Arrangements and Policies ascertain the extent to which the developing countries are harmed by the anti-economic production of the developed countries, and suggest ways of amending the latter's protectionist policies.

(g) That the Commission on Commodity Arrangements and Policies determine which of the existing preferences are essential to the beneficiary developing countries, and study and suggest compensatory measures which will permit their complete abolition within the time-limits envisaged.

(h) That the Commission on Commodity Arrangements and Policies examine the trade and payments arrangements that would make for the establishment of multilateral trade between the developing countries and the centrally-planned economy countries, in line with the mutual interest they expressed at the Conference and with a view to putting into effect the increase in import targets, as announced in the *Aide Mémoire* of 10 June 1964 submitted by the Governments of the Union of Soviet Socialist Republics, Czechoslovakia, Poland and Hungary (E/Conf.46/L.28, annex C, p. 32).

(i) That the Commission on Commodity Arrangements and Policies determine which of the subsidies granted by the developed countries adversely affect the commodity exports of the developing countries or help to bring about a drop in the world prices of such commodities, and establish consultation machinery with the developing countries which are currently or might in future be affected by the subsidies concerned.

(j) That the Trade and Development Board, in cooperation with FAO, see that the principles of the Food and Agriculture Organization in relation to the disposal of agricultural commodity surpluses are strictly enforced, and likewise establish criteria for ensuring the orderly sale of the stocks of mineral ores (including strategic products) accumulated in the developed countries.

(k) That the Commission on Commodity Arrangements and Policies study and suggest a financial formula whereby the developing countries can sell their commodities on an equal footing with the developed coun-

tries which maintain special sales programmes in operation, and at the same time explore ways and means of setting up financing machinery which will permit the absorption of seasonal surpluses in the developing countries.

(l) That the Commission on Commodity Arrangements and Policies decide on the criteria deemed most likely to ensure steady growth and predictability in the export earnings of the developing countries, such as:

(i) The concept of equitable and stable prices for commodities, having due regard for their purchasing power;

(ii) An increase in the consumption and imports, by the developed countries, of primary products processed as far as possible;

(iii) The concept of "satisfactory access"; and

(iv) The co-ordination of production and marketing policies.

(m) That the Commission on Commodity Arrangements and Policies analyse the various types and forms of commodity arrangements (international agreements, inter-governmental consultations, producers' organizations, etc.) and list the commodities which may be covered by such agreements.

(n) That Governments, where necessary, promote action to review existing agreements from the standpoint of adequacy, in accordance with the criteria laid down in part I of recommendation A.II.1.

(o) That the Commission on Commodity Arrangements and Policies examine the techniques adopted in conformity with part I, Chapter C (8) of recommendation A.II.1 and propose specific methods for their application.

(p) That the Commission on Commodity Arrangements and Policies study the possibility of arriving at agreements by groups of commodities including, in particular, natural products and the synthetic products which compete against them.

(q) That the Commission on Commodity Arrangements and Policies study schemes—including expansion of the developed countries' food aid programmes—to enable developing countries to obtain outlets for their commodity surpluses on the same footing as the developed countries which have special programmes of this type.

(r) That Member States act to strengthen the World Food Programme of the United Nations and FAO and promote the study of procedures and systems likely to enlist the participation in the Programme of international financing agencies, such as the International Development Association, with a view to facilitating the purchase of commodities in developing countries with exportable surpluses.

(s) That Member States, FAO and other international agencies concerned undertake studies to improve, from a technical standpoint, the production and marketing of natural products affected by competition from synthetics, and to discover new uses for the former.

(t) That the Commission on Commodity Arrangements and Policies support the action taken by international agencies in the developing countries which are

the chief exporters of non-replenishable natural products aimed at increasing the real earnings of these countries.

(u) That the Commission on Commodity Arrangements and Policies determine the best method of giving practical effect to the recommendations contained in recommendation A.II.9 of the United Nations Conference on Trade and Development.

#### D. Exports of manufactures and semi-manufactures

9. To recommend to the Governments of States members of ECLA that they should urge the General Assembly, at its nineteenth session, to take the necessary steps to set up a specialized agency on industrial development, in accordance with the provisions and within the time limits set forth in General Assembly resolution 1940 (XVIII) and, pending the establishment of the agency concerned, to support the view that the existing Industrial Development Centre should carry out forthwith, in so far as it is able to do so, the activities provided for in recommendation A.III.1 of the United Nations Conference on Trade and Development.

10. To recommend to the Latin American Governments members of the Commission that they reaffirm the vital interest of Latin America in securing the establishment by the developed countries, in favour of the developing countries, of a non-reciprocal, general and non-discriminatory system of preferences exempt from the application of the most-favoured-nation clause, which would permit exports of a satisfactory volume of manufactures and semi-manufactures to the developed countries;

11. To request the Executive Secretary of ECLA to draw the attention of the Secretary-General of the United Nations, on behalf of the Trade Committee, to the interest shown in that respect, and to request him to set up forthwith the committee of government representatives envisaged in recommendation A.III.5 of the United Nations Conference on Trade and Development.

12. Likewise, to request the Executive Secretary of ECLA officially to transmit recommendations in Part I.D. of the present resolution to the Executive Secretaries of the regional commissions for Africa and for Asia and the Far East as well as to the Chairman of the Seventy-seven in order to achieve concerted action in this respect.

13. To ask the ECLA secretariat to carry out further studies on the possible forms and features of a preference system in favour of the developing countries, and on the means of solving the problems involved in establishing such a system, so that the region can be fully prepared to participate in international meeting at which the subject is discussed. The ECLA secretariat should transmit the studies as soon as they have been completed, to the Governments of the States members of the Commission, and to the international agencies concerned.

14. To recommend to the Governments of the developing countries of ECLA that, until such time as a preference system has been decided on, and specific measures have been taken to apply it, they should endeavour, *inter alia*, in GATT negotiations where appropriate, to ensure that the developed countries undertake, without delay:

(a) To abolish tariffs or reduce them to levels compatible with exports of manufactures of particular interest to the developing countries;

(b) To abolish customs duties for all semi-manufactures from developing countries; and

(c) To abolish all other non-tariff restrictions that affect imports of manufactures or semi-manufactures.

15. To recommend to the developed countries that they should extend the above measures to the developing countries which are not members of GATT.

16. To recommend to the Governments of the developing States members of ECLA that they submit periodically to the committee on manufactures of the Trade and Development Board a list of manufactured products whose export is of special importance to their economies, in order that this Committee—pursuant to point 10 of recommendation A.III.4T—may present the list to the agencies concerned in order that the products can be considered in negotiations aimed at facilitating and expanding access to the markets of developed countries; the list must be brought up to date and consolidated annually. Moreover, to request the ECLA secretariat to inform the secretariats of the regional economic commissions for Africa and for Asia and the Far East of this decision by the Trade Committee, in order to ensure concerted action in this respect.

17. To ask the ECLA secretariat to prepare at once, in co-operation with the various national, regional or extra-regional bodies that could contribute to the task, a comprehensive list of manufactures or semi-manufactures that could be exported by Latin America if the customs charges, tariffs differentiating between raw materials and manufactured products, and other restrictions of equivalent effect, were eliminated or sufficiently reduced.

18. To recommend to Governments that they should instruct the committee on manufactures to define the "exceptional and compelling" circumstances under which the developed countries could impose or increase restrictions or tariffs on imports of manufactures and semi-manufactures from developing countries, and also to establish consultation machinery in which the developing countries affected by such measures can take part.

19. To request ECLA and the committee on manufactures to make a study of the additional concessions which should be granted to the relatively less developed countries, to enable them to turn to account the measures recommended in the previous points.

20. To ask the Executive Secretary of ECLA to request the Trade and Development Board to obtain periodically from the developed countries information on the measures they adopt in conformity with the previous paragraphs and with recommendations A.III.6 and A.III.7 for immediate transmittal to all the member countries.

21. To recommend to the Latin American Governments that they should continue their efforts to obtain a commitment from the countries with centrally-planned economies aimed at ensuring that their economic plans provide for imports of manufactures and semi-manufactures from the developing countries in increasing and adequate quantities.

22. Likewise, to recommend to the aforementioned Governments that, in concluding trade and payments agreements with the centrally-planned economy countries, they should insist on a more multilateral approach,

in line with the commitment expressed in recommendation A.III.7 adopted by the Geneva Conference.

#### *E. Financing of trade and development*

23. *To recommend* to the Governments of developing States members of ECLA:

##### *Guidelines for international financial co-operation*

(a) That they continue their efforts to formulate and execute national development plans and economic policies capable of achieving an intensive and balanced economic growth, taking into account the importance of such plans and policies for the steps being taken to facilitate continuing, adequate and sufficient financial co-operation on the part of the developed countries. Such national development plans and policies constitute the framework of action and the basis for the measures aimed at obtaining external financial co-operation, without prejudice to the flexibility of said plans.

(b) That those which are signatories to the Charter of Punta del Este co-operate with the work being done by the Inter-American Committee on the Alliance for Progress (ICAP) in the yearly examination of national development policies and programmes, with a view to ascertaining the internal effort and external assistance required to ensure their financing.

(c) That, through the ECLA secretariat, they request the Trade and Development Board to urge the developed countries and the international financing institutions to comply promptly with the provisions contained in paragraph 1 of recommendation A.IV.1 adopted by the United Nations Conference on Trade and Development, as specified in paragraph 3 of the same recommendation;

(d) That they request the Trade and Development Board to adopt measures conducive to establishing the procedures for compliance with paragraph 5 of recommendation A.IV.1 by the developing and developed countries.

##### *Growth and aid*

(e) That they request the Trade and Development Board to undertake studies, in co-operation with the competent international agencies, on the extent of the aid actually provided by the developed countries, with a view to drawing conclusions as to the best way of complying with the objective referred to in recommendation A.IV.2, section III.

(f) That those which are signatories to the Charter of Punta del Este request the Trade and Development Board to take into consideration for this purpose, the studies carried out by the agencies to which they belong, with a view to compliance with paragraph 2 of recommendation A.IV.2, without prejudice to the operation of the institution provided for in the same paragraph to examine the situations of the other developing countries of the region.

##### *Problems of debt service*

(g) That they forthwith bring to the attention of the international financing agencies the pressing need to provide for machinery with a view to securing agree-

ment, if necessary, on the rescheduling or consolidation of the developing countries' external debt, in conformity with recommendation A.IV.5.

##### *Compensatory financing*

(h) That they instruct the Executive Directors representing them on the International Monetary Fund (IMF) to request that institution to apply forthwith the short-term compensatory credit system, set forth in recommendation A.IV.17.

(i) That they request their representatives in the International Bank for Reconstruction and Development (IBRD) to give maximum priority to the study referred to in part A of recommendation A.IV.18, and include in the study clear-cut provisions linking the financing by IMF of short-term disequilibria to complementary financing of long-term disequilibria.

(j) That, through the ECLA secretariat, they request the Trade and Development Board to give special priority to the study of a compensatory credit system to offset balance-of-payments disequilibria, in relation to the deterioration in the terms of trade and other factors, as set forth in the terms of reference contained in section B of recommendation A.IV.18.

##### *Regional development*

(k) That they firmly support the efforts and action of their regional institutions, particularly the Inter-American Development Bank (IDB), to secure that a larger proportion of the resources made available by the developed countries are channelled through the said institutions, with a view to strengthening the financial bases for multilateral action in the regional sphere.

##### *Studies*

(l) That they take steps to ensure:

(i) That IBRD complete, as soon as possible, the study on suppliers credit, credit insurance and rediscount arrangements alluded to in recommendation A.IV.14;

(ii) That IBRD expedite presentation of the study on the scheme for increasing capital flows to developing countries (recommendation A.IV.11);

(iii) That the Trade and Development Board investigate, as soon as possible, the trade conditions for exports of the developing countries' main primary products, for the purposes set forth in recommendation A.IV.16.

##### *International agencies*

24. *To recommend:*

(a) That the international agencies concerned submit as soon as possible the studies on regional development referred to in recommendation A.IV.10.

(b) That the ECLA secretariat urge the Secretary-General of the United Nations Conference on Trade and Development to expedite the convening of the group of experts alluded to in recommendation A.IV.19 and the completion of its studies; and likewise exhort the developing countries to submit, as soon as possible, a systematic statement of their views concerning the incidence of the international monetary situation in trade and development problems and propose the solutions they deem most expedient in time to be considered by the aforementioned group of experts.

## F. Maritime transport

25. *To recommend* that the ECLA secretariat should ask the Trade and Development Board to establish, as soon as possible, a subsidiary organ specifically responsible for the problems of maritime transport referred to in recommendation A.IV.22, "Common measure of understanding on shipping questions".

26. *To recommend* to the Governments of the Latin American countries that, as a first step towards improving their shipping systems, they should:

(a) Adopt forthwith the measures needed to establish the system of consultation between the shippers and the shipping conferences recommended in paragraph 1 of the "Common measure of understanding on shipping questions".

(b) Establish at a government level, with the participation of shippers and associations of national shippers, units to study problems of maritime transport, which would meet regularly to report on the progress of their work, exchange information and co-ordinate their activities, and would be able to call on the advice and assistance of the secretariat of the Economic Commission for Latin America.

(c) Redouble, and co-ordinate, their efforts to develop their national maritime fleets, in order to increase their share of the transport of their foreign trade, improve their balances of payment and have at their disposal an effective instrument for bringing about a more favourable freight policy on the part of the shipping conference. Similarly, the Trade Committee recommends to the Governments that they should, by means of the international aid and financing envisaged in recommendation A.IV.22, and also in the Charter of Punta del Este, take vigorous action to speed up the improvement of their port facilities.

27. *To recommend* that the secretariat of the Economic Commission for Latin America should assist the Governments of the region to collect the relevant information and analyse the problems referred to in paragraph 26 above, and intensify its own studies in the field of maritime transport, in close co-operation with the study units dealing with problems of maritime transport in the countries of the region, with the secretariats of the United Nations Conference on Trade and Development, of the other regional economic commissions of the United Nations, and of the Latin American Free-Trade Association.

## G. Future action

28. *To recommend* to the Governments of developing States members of ECLA:

(a) That, given the unity achieved by the developing countries during the Geneva Conference, they maintain and intensify Latin America's contacts and common action with the developing countries in other regions, as one of the chief methods of overcoming the obstacles to the attainment of the aims pursued at Geneva;

(b) That, at the nineteenth session of the United Nations General Assembly, they endorse the establishment of the institutional machinery approved in recommendation A.V.1, as a first step leading to the establishment of the worldwide agency advocated by the developing countries at the Geneva Conference;

(c) That, once established, they give this machinery whatever co-operation it needs to achieve its aims as quickly as possible;

(d) That they co-operate with the secretariat of ECLA in its studies and activities in connexion with these matters.

29. *To recommend* to the secretariat of ECLA:

(a) That, in consultation with the Governments of developing States members of ECLA, it continue and complete its studies and work on world trade in order to ensure that the principles and rules adopted by the United Nations Conference on Trade and Development are converted, as early as possible, into practical measures;

(b) That, with this end in view, it co-operate closely with the secretariat of the United Nations Conference on Trade and Development, with the secretariats of the other Regional Commissions and with the other international agencies concerned;

(c) That it continue to provide the Latin American Governments with advisory assistance in these matters, with a view to maintaining and strengthening their unity of thought and action at the regional level.

30. *To recommend* to member Governments that they see to it:

(a) That the set of principles adopted by the United Nations Conference on Trade and Development be constantly improved and adopted on a universal basis;

(b) That the Trade and Development Board, from the time of its establishment, takes steps to systematize the principles already prepared and continue to formulate rules of general value, in conformity with the recommendations adopted by the United Nations agencies whose terms of reference relate to trade and development;

(c) That the consolidation of those principles constitute a Charter on Trade and Development, as a basic instrument of the United Nations Conference on Trade and Development which is to meet at regular intervals, and of its executive agencies.

31. *To recommend* to the Governments of developing States members of ECLA,

that, taking into account the need for the Latin American countries to extend their trade to new areas, they should view with interest the opportunities for increasing such trade afforded by commerce with the centrally-planned economy countries, on the basis of the offers made by the latter at the United Nations Conference on Trade and Development, and take appropriate measures to that effect.

## H. Other matters

32. *To express its gratitude* to the United Nations Economic and Social Council for its adoption of resolution 1000 (XXXVII), expressing appreciation of the work done by the regional economic commissions, and the co-operation established among them in connexion with the United Nations Conference on Trade and Development, and the hope that they will continue their activities with a view to the implementation of the recommendations on trade and development adopted at the Conference.

## LATIN AMERICAN ECONOMIC INTEGRATION

The Trade Committee reiterates its conviction that the economic integration of Latin America is urgently necessary for intensifying the development of the Latin American countries, achieving the indispensable social changes, improving the position of the region with respect to the problems of its external sector and reorganizing production on the basis of lower costs and a more rational use of existing resources, and therefore, in order that its recommendations may serve as a guide for the future action that should be taken on the matter.

*Decides:**A. Regional integration and the negotiation of international agreements*

1. *To recommend* that they expedite the integration of the region by the most practical means possible in order to play an effective role in the negotiation of international agreements and of a new structure of world trade.

*B. Activities of the ECLA secretariat*

2. *To take note* with satisfaction of the work done by the Economic Commission for Latin America in support of the region's economic integration, in terms both of research and of the formulation of general guidelines for the Latin American Governments to use as a basis for decisions in their integration policy. Attention is drawn in particular to document E/CN.12/22, which reviews the activities of the secretariat of the Economic Commission for Latin America in the field of economic integration.

3. *To take* into account its earlier resolutions, which define the position of the Economic Commission for Latin America with respect to integration.

4. *To note* with satisfaction that the ECLA secretariat has already made considerable progress on new studies in this field, which are expected to be completed by the end of 1964, and whose aim is to determine specific formulas or proposals for the consideration of the Governments, with respect to problems that constitute major obstacles to integration.

5. *To urge* the ECLA secretariat that, as soon as those studies have been completed, they should be submitted to the Latin American Governments, so that once the studies have been examined by national experts, the Governments can begin consultations and take decisions on proposals or formulas considered likely to accelerate integration.

6. Likewise *to urge* the secretariat that it continue to give advisory assistance to Governments so requesting in the elucidation of questions of trade policy linked to the Latin American economic integration movement.

7. *To recommend* to the Governments members of ECLA that they give their full support to the preparation of the above mentioned studies, including the services of experts if and when necessary.

*C. Promotion of trade among developing countries and regional integration*

8. *To recommend* that the Governments of developing States members of ECLA should make a systematic effort to intensify trade among themselves and the other developing countries and to promote and complete the present framework of regional integration with a view to achieving the full integration of Latin America.

9. *To recommend* to the Governments of the countries already participating in regional integration agreements that they should speed up their studies aimed at co-ordinating their economic policies and harmonizing trade policy instruments.

10. *To recommend* that these Governments consider adopting, in the near future, criteria for a reduction of the charges on reciprocal trade, giving greater automaticity to their liberalization programmes, defining the sectors in which such criteria may more easily be applied and bearing always in mind the need for the co-ordination work mentioned in point 8 above.

11. *To recommend* that, within these criteria, the Governments concerned should give careful consideration to the broader use of the complementarity agreement in respect of the industrial sectors most likely to achieve integration.

12. *To recommend* that greater urgency be given to studies aimed at the establishment of multilateral payments systems, bearing always in mind the need for closer ties between official and commercial banking institutions as a favourable condition for the establishment of reciprocal credit.

13. *To recommend* that these Governments should promote the financial and trade measures likely to facilitate the integration of those countries deemed to be at relatively less advanced stage of development or to have an insufficient market, chiefly in respect of the financing of their foreign trade and of industrial projects to be carried out on their territories.

14. *To recommend* that the Governments of developing countries not yet part of regional integration movements should undertake or speed up studies aimed at their participation in the integration process.

15. *To recommend* that the Governments of developing countries, already part of regional integration agreements, should adopt at the highest political level the decisions likely to facilitate execution of the provisions of Part II.C. of the present resolution, *inter alia*, through the establishment of an adequate mechanism to this end.

*D. Participation of the workers in Latin America's economic integration process*

16. *To recommend* that, considering the decisive importance of the labour sectors' participation in promoting Latin America's integration policy, the Economic Commission for Latin America, in co-operation with ALALC, SIECA and other agencies concerned, study and define the most appropriate formula for participation by the workers in the preparation and promotion of the integration effort.

## II

### REGIONAL SEMINAR ON COMMUNITY DEVELOPMENT\*

(Santiago, Chile, 22 June to 1 July 1964)

The Latin American Regional Seminar on the Role of Community Development in the Acceleration of Economic and Social Development was held at Santiago, Chile, from 22 June to 1 July 1964, under the joint sponsorship of the United Nations Division of Social Affairs and Bureau of Technical Assistance Operations and the Economic Commission for Latin America.<sup>1</sup> It was attended, in a personal capacity, by twenty officials and specialists of high technical standing from all the South American countries (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela) and by representatives from the sponsoring organizations and also from the Technical Assistance Board, the International Labour Office, the Food and Agriculture Organization, the United Nations Educational, Scientific and Cultural Organization, the World Health Organization, the Organization of American States and the Latin American Institute for Economic and Social Planning.

The primary aim of the Seminar was to bring together social development planners and promoters in order to determine the part that should be played by the people in the Latin American countries' efforts to expedite economic and social development. Because of the subject chosen and the angle from which it was approached, the purposes of the Seminar were twofold: firstly, to make for an exchange of ideas between the two groups of technical experts—national planners (economists, statisticians and so forth) and specialists in social affairs (sociologists, anthropologists, social workers, community development officials, housing experts, educators, health experts, etc.)—who are concerned with Latin American development problems, although apparently cut off from one another in their work, and, secondly, to analyse the possibility of applying community development principles and methods in a practical spirit and on a nation-wide scale. This analysis made for a mutual knowledge of the principles and techniques of planning and social action, clarified some doubtful points and introduced certain innovations and adaptations that are needed in community development as part of the process of speeding up the economic and social development of the Latin American countries.

The discussions were focused on two aspects: (a) the content and scope of public participation in the acceleration of development; and (b) the definition of certain principles and methods that would make such participation possible on the deliberate conscious and organized

basis that is exacted by development requirements.<sup>2</sup> Successful results have been achieved by such principles and methods in Asia and Africa; moreover, Colombia, Ecuador, Peru and Venezuela are already implementing national community development programmes and seven other Latin American countries (Bolivia, Brazil, Chile, Costa Rica, Mexico, Panama and Uruguay) have received or are currently receiving United Nations technical assistance in this field.

The discussions are summarized below according to the sequence of topics dealt with.

#### 1. PUBLIC PARTICIPATION IN THE ACCELERATION OF ECONOMIC AND SOCIAL DEVELOPMENT

In recent years a new factor has been capturing the interest of theoreticians and field workers in development problems, namely, the possibility of conscious and organized participation by the people in development plans and projects. As regards the authenticity and scope of their participation and the way in which it could be assimilated into the planning process, it was pointed out that economic conditions exist that do not permit of progress except where there are no fundamental contradictions or conflicts, and situations in which public participation may be limited or unsatisfactory. Furthermore, in view of the characteristics of local communities, it was asked whether the methods of community development might not be ineffectual in that they run counter to the process of division and specialization of labour.

As regards the socio-cultural and politico-administrative consequences of development plans and programmes, it was thought that enough progress has been made in Latin America to ensure the requisite accuracy in projections, technical and scientific precision in diagnosis and the impartiality proper to planning techniques. But the targets and goals in which the plans are crystallized are not being attained because, among other reasons, they reflect neither genuine national aims nor the desire and ability to attain them and also because the people are unaware of them, fail to understand them, or are not identified with them, and, what is more, are not practically organized so as to be able to share in them.

The Seminar agreed that the difficulties and stumbling-blocks that might hamper public participation in the preparation of plans would in no case be insurmountable. In some of the Latin American countries better use might be made of the channels of communication, liaison and representation which had hitherto been ineffectual or had not been a truly authentic means of expression. At the same time consideration was given to the specific possibility of establishing a two-way flow between the community, the planners and the Government in order

\* See the report of the Seminar (ST/ECLA/Conf.18/L.4).

<sup>1</sup> The Seminar was preceded by the Reunión de Trabajo sobre Organización y Evaluación del Desarrollo de la Comunidad at Quito in December 1962 and the Ad Hoc Group of Experts on Community Development Programmes at New York in February 1963. The Seminar was convened in accordance with the aims of the United Nations General Assembly and of the Economic and Social Council, as expressed in a number of resolutions, to stimulate and guide public participation during the Development Decade in the interests of social and economic development.

<sup>2</sup> Participation of the people and principles of community development in the acceleration of economic and social development (ST/ECLA/Conf.18/L.1), one of the principal working papers used as a basis for the debates.

to have suitable machinery that would do away with any suspicion of impractical idealism that might attach to the possibility of actual participation by the people in the formulation of development plans. A discussion was held on whether sociology could help to define criteria for solving the problem of resource allocation among the components of social well-being, thereby ensuring that the people would share in the fruits of progress, with due regard to their requirements as the beneficiary of the process. To that end, sociology is beginning to apply the mathematical techniques that other sciences have been using for some time past. Sociological analysis could use a methodology based on social models that would enable an over-all assessment of the problems to be made, although difficulties might crop up in the process of collecting and evaluating the data needed for a social analysis on the lines suggested.

## 2. PRINCIPLES OF COMMUNITY DEVELOPMENT AS A POTENTIAL CONTRIBUTION TO ECONOMIC AND SOCIAL DEVELOPMENT PLANS

Although community development seems to follow a different pattern in each country and even in each programme, an analysis of the content and aims of the various programmes will show that they are based on a common denominator: faith in the strength of the capacity and potential of the individual and community and the conviction that this capacity and potential can be consciously freed, enhanced and channelled towards economic and social progress. Although the programmes in some of the Latin American countries have a few shortcomings, it was pointed out that community development contains certain positive factors making for more rapid growth, namely: (a) the system of working for development on the basis of an association between the people and the Government, which is a sound solution to the problem of how to match and channel the people's resources and energies; (b) the possibility of creating attitudes, motives and images that are favourable to economic and social development; (c) its suitability as an instrument for the auto-generation of development at the local level; (d) the possibility that it will constitute a two-way communications system between high Government and planning circles and the people who produce, consume, save and thereby arrive at a certain level of living and social status; and (e) the possibility of supporting and strengthening the progress achieved by the people through the development process.

Throughout the discussions stress was laid on the fact that many of the community development programmes in Latin America are carried out on a very small scale and are based on pilot projects of little importance for the country as a whole. However, in view of the results achieved in Colombia, Peru and Venezuela, it was generally admitted that the principles and practices of community development did hold out possibilities if they were made part of the general effort undertaken in connexion with over-all development plans. In this respect it was thought that community action should take place on three broad fronts: (a) mobilization and organization for development; (b) training and organization for production; and (c) organization for the improvement of living levels and social conditions. It was added that the principles and practices of community development could help to arouse conscious and de-

liberate interest on the part of the public in sharing in general plans, and they might also help to lessen the opposition that any process of change—such as that necessitated by over-all plans—might arouse in the people. This opinion is, of course, based on the assumption that community development will be pursued through national programmes that are closely associated with over-all development plans, in the same way as agrarian reform and the other fundamental instruments and requisites for development.

In the economic field, for instance, it was suggested that community development could induce the people to work consciously and deliberately for the implementation of specific objectives and lines of action at both the general and sectoral levels. This would involve a mechanism of transmittal or communication to help the people to become acquainted with the activities and aims in question, to bear them in mind and deliberately and consciously to undertake to carry them out. Additional economic and financial resources might be tapped to supplement those assigned to over-all economic programming, particularly for infrastructural works and other projects based on systems of aided self-help, i.e., for road-building, irrigation and electrification works, bridges, aqueducts, sewerage, housing, schools and many other undertakings. Resources earmarked for work of national interest such as literacy and health campaigns might also be freed. As a potential contribution to community development, the possibility was raised of turning the community into an instrument for the promotion and execution of agrarian reform, since this is a structural process involving the metamorphosis of rural life and its institutions, the vigorous mobilization of sizable financial, technological and, above all, human resources, facilitating the course of resettlement, organizing the people for co-operative production and removing some of the difficulties inherent in the process of transforming the means and methods of agricultural production.

In the political and administrative field, community development might promote the operation of a two-way system of communication between top-level government and planning circles working on a countrywide basis with macro-metric magnitudes and the community that functions at the operational and local level. It might also facilitate the co-ordination and liaison which are necessary to put the plans into practice in view of their inter-sectoral nature. In addition, it might make some contribution to the unleashing of "the new social dynamic" and to the emergence of the mystique of progress which every country needs to expedite its development, to consolidate its progress and to infuse that progress with a self-generative force. With respect to this latter point, it was acknowledged that the necessary scope and depth of the economic, political and social changes implied in the execution of over-all plans are not easy to attain in countries where broad sectors of the population are economically inactive and dominated by social inertia or paternalistic practices. In any case, it was established that these methods cannot on their own achieve the unity of action and purpose entailed by the execution of plans.

In the socio-cultural sphere, discussion focused on the potential contribution of community development to the promotion and acceleration of a change in the population's generally negative attitude, motives and concepts in order to make them constructive and wholly favour-

able to the aims of over-all development plans. The principles and methods concerned might well facilitate the integration of rural and urban communities in countries affected by urbanization and rapid social change, and act as a contributing factor of popular organization and education so as to make the best use of the services offered by the Government.

The various speakers on the subject of the potential contribution of community development to economic and social development plans insisted that such a contribution inevitably called for a whole process of adaptation and the establishment of necessary institutions.

### 3. SOME IMPLICATIONS IN THE USE OF COMMUNITY DEVELOPMENT FOR THE ACCELERATION OF LATIN AMERICA'S ECONOMIC AND SOCIAL DEVELOPMENT

The analysis of this subject was based on the need to integrate the rural areas and local administration with Latin America's development plans and with the human factor's contribution to those plans.

Some of the elements of community development to be re-examined, and the adaptations needed, are theoretical or conceptual, while others are technological, or of a political or administrative nature. It is a far cry to the model integrating all economic, social and political factors, to which the community will be able to adapt itself easily, with no unforeseen problems or conflict. Nor can it be said that the groups wielding most influence in the community really do want the whole population to play an organized part in development.

It was asserted that, under the circumstances, community development experts would have to bear constantly in mind that the mere formulation and adoption of a national community development programme embodying economic and social development targets, is not enough to ensure that it will really influence development; what is needed is a strategy in keeping with the actual conditions prevailing in a country. Several participants pointed out that such conditions were often incompatible with the important national role of community development. When a national move in that respect is shared by the political leadership of a country, the sponsors of community development have opportunities, if they are able and dedicated enough to act as assistants in solving certain well-known problems—agrarian questions, decentralization and administrative democratization, effective education for the working sector, etc.—without insisting unduly on their own identity or traditional doctrines.

Another aspect of the use of community development which requires further attention is the very meaning of the word "community". How far is it justifiable to call local groups in Latin America "communities" and to what extent is it possible to speak about community development techniques? A number of participants indicated certain difficulties in this respect and reviewed the local groups' distinguishing features in detail. As a rule, the links binding a local community are weak and have certain characteristics which, instead of promoting community action and the people free participation in local elections, only serve to obstruct them. Most of the rural population lives in very small nuclei, which are either dispersed or exist under the paternalistic control of a landowner, and find difficulty in freely taking

part in local decisions. The predominating trend is for the leading population centres in rural *municipios*, which ought to be the natural centres of broader communities, gradually to lose their few economic and social functions. With no reasonably efficient local democratic government which truly represents the rural sector's interests, the success of community development programmes will always be limited and short-lived. In this connexion, some of the participants suggested: (a) that development programmes should take due account of the rural communities' conflicting interests and help to organize those groups which hitherto have had no voice in managing their own affairs; (b) that such programmes should be accompanied by local administrative reforms conducive to the institutionalization of local governments on different lines to those now in existence, but based on the national system of *municipios*.

When it was attempted to define the contribution of the human factor or the part it plays in economic development, several difficulties were encountered. Very little is known in theory, about the contribution of the various factors to development. Nor is there an integrated model of social and economic structure, but only models constructed by rational methods, that is, based on relative ignorance of the real state of affairs.

In a society, all forms of community development or popular participation serve as supplementary media of communication, organization of the people, persuasion and integration of the marginal populations. As regards the classical mechanisms for their incorporation—education, conscription, trade unionism, party politics and the market—attention was drawn to the role incumbent on the State in the establishment of the machinery and institutions needed to form a body of citizens which will contribute to the smoother operation of national affairs.

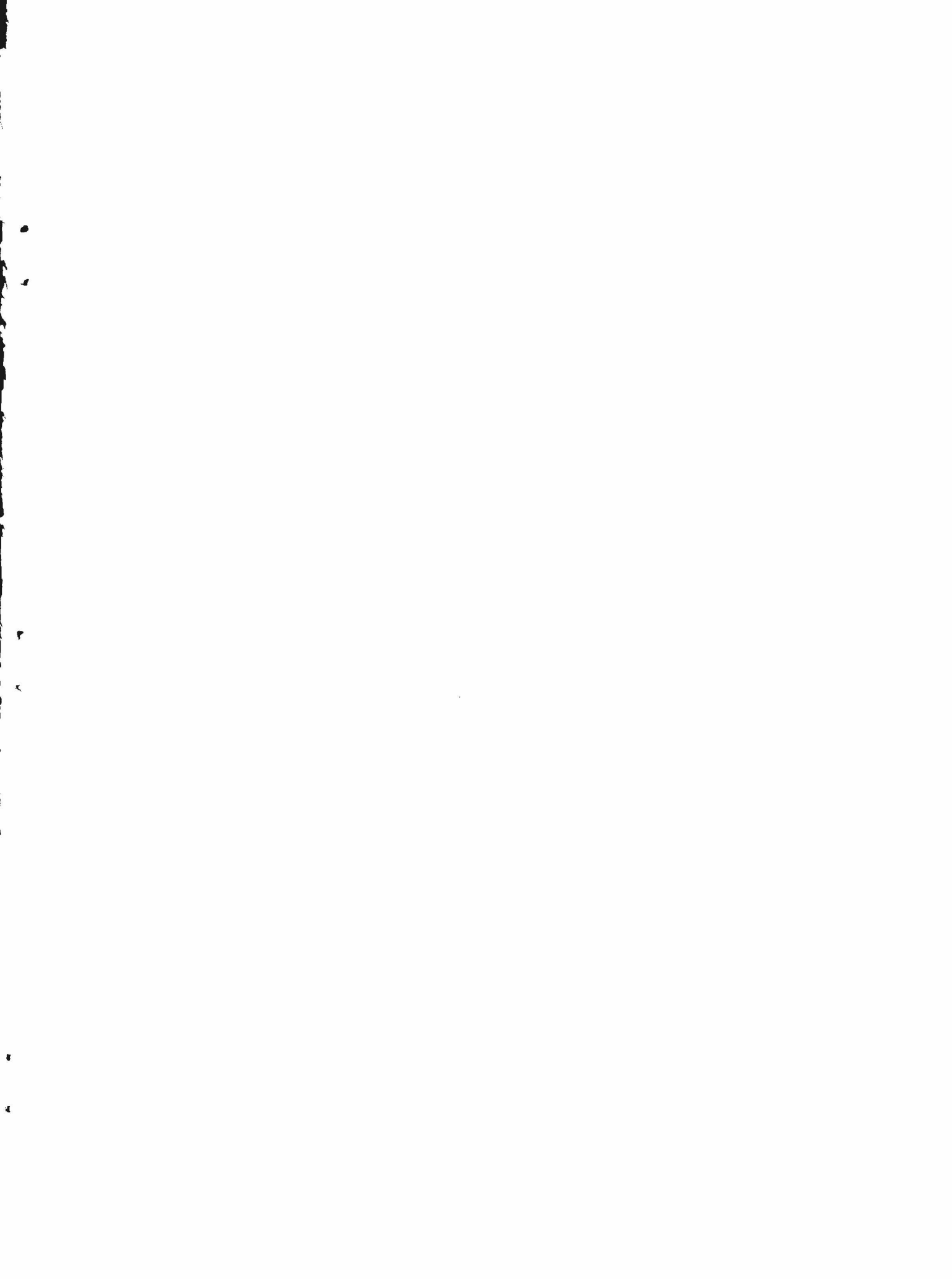
It was stated in conclusion that: (a) the expansion of such a body demands certain economic conditions which affect the structure of production; hence, (b) it is worth while to consider not only how community development and popular participation can contribute to economic development, but also how the latter can contribute to the individual aims of the former.

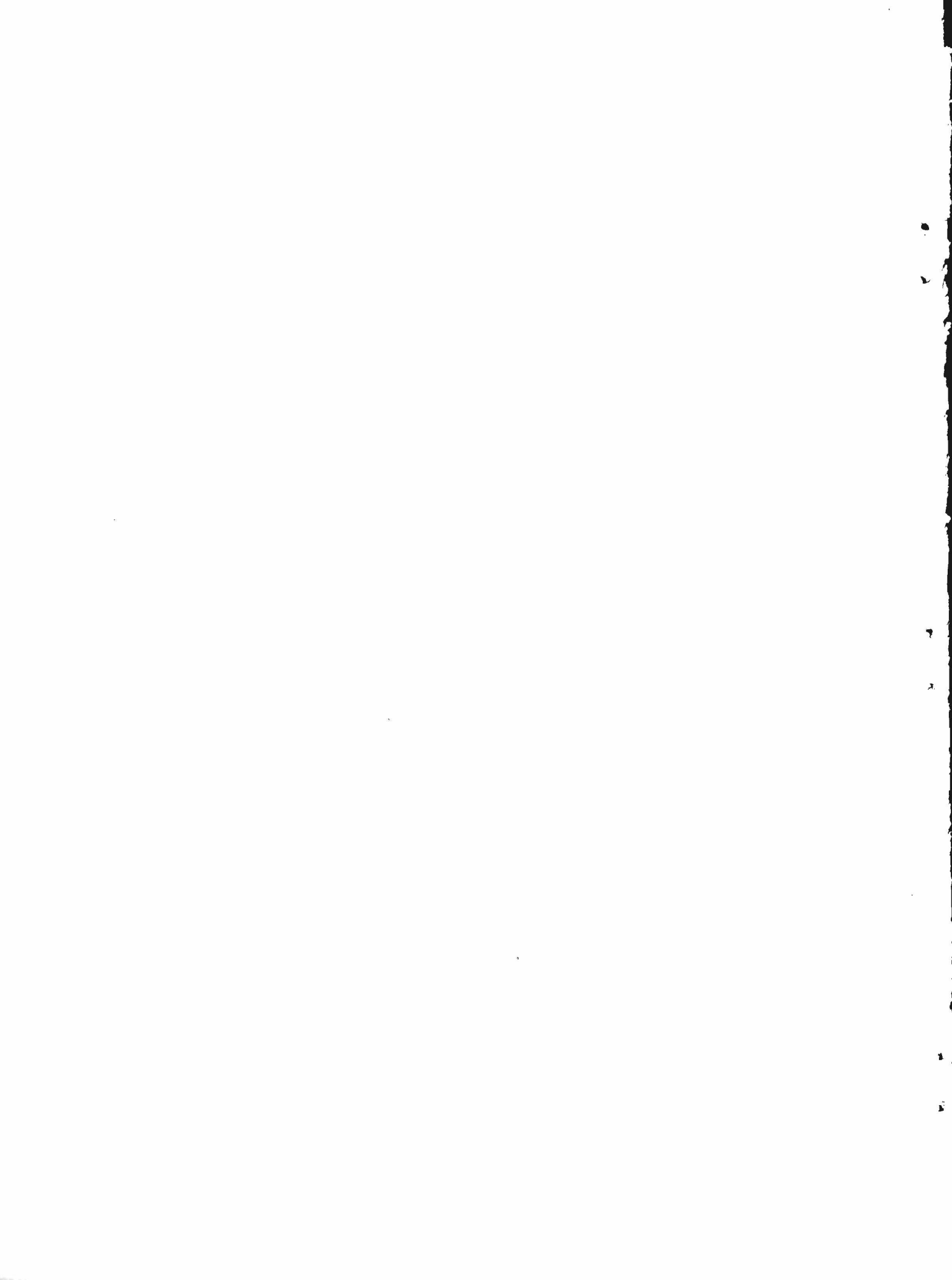
Some speakers maintained that, although the essential aim of development should be to change the existing structures, that did not mean that the community could not develop within those structures or constitute an instrument of economic development functioning concurrently with other instruments.

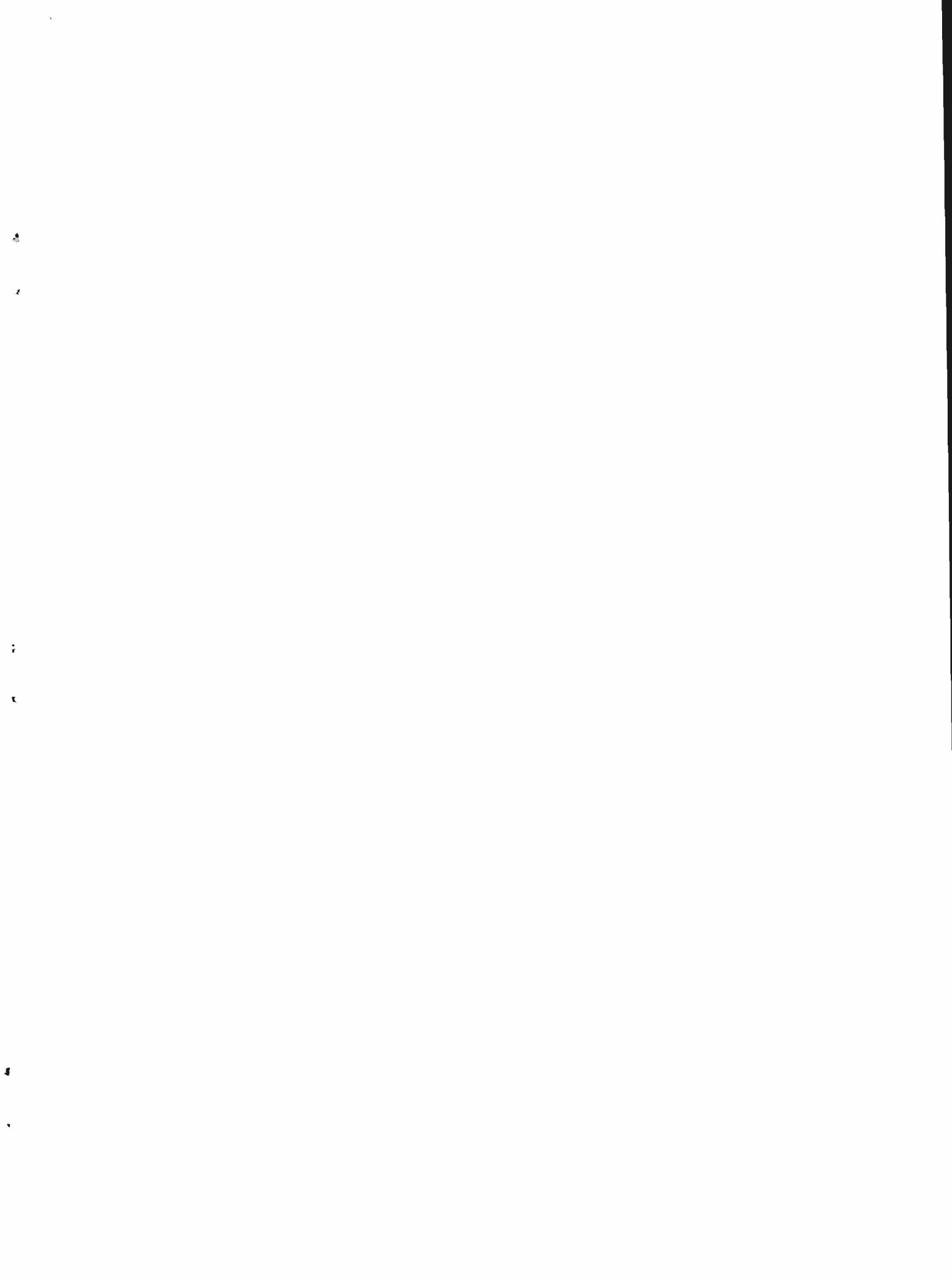
With regard to vocational training in community development, stress was laid on the fact that both community and national development had one objective in common: mankind's development within a society which, through the medium of science and technology, will enable it to enjoy an adequate standard of living from the economic and cultural standpoint, and which will ensure its development through its own efforts. The two processes should be co-ordinated and mutually complementary. The capacity and responsibility of vocational training at different levels consist in the training of local leaders, promoters, and senior administrative and research personnel; moreover, some differentiation is necessary in their training according to the conditions ruling in each community, and the programmes should be modified as required.

In the discussion of sociological research and community development, it was emphasized that the different problems involved call for distinct approaches. As regards the possible use of sociological research, it was asserted that: (1) it provides an objective picture of community needs; (2) it makes it possible to confirm or reject hypotheses, and to identify one among a variety of patterns; (3) some of the techniques used, such as

the questionnaire, are of practical application as instruments, and also have an educational value in that they raise doubts and questions in the individual's mind which he himself may never have faced before; (4) these techniques enable solutions to be found and programmes to be formulated on the basis of the conditions under which people actually live, instead of in the light of theories held by intellectuals.







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