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ECLAC and neoliberalism

An interview with Fernando Fajnzylber

*As a homage to Fernando Fajnzylber, the second anniversary of whose death took place last December, CEPAL Review is reprinting an interview originally published in *Industria y Desarrollo* (Bogotá, vol. 3, No. 10) in 1991. (Minor editorial changes have been made).*

Industria y Desarrollo: Some specialists see certain similarities between the ECLAC proposal and neoliberal thinking. Are there in fact such similarities?

Fernando Fajnzylber: There are four apparent similarities between the neoliberal proposal and the ECLAC proposal. The first is the belief that changes in economic management are urgently needed; the second has to do with the importance attributed to our countries' linkages with the global economy; the third refers to the necessity of altering the role of the State in this new phase of Latin America's development; and the fourth is that both proposals place importance on maintaining, within certain limits, macroeconomic equilibria. There are similarities, then, in these four areas: urgency, global linkages, a new role for the State and macroeconomic balances.

I. & D.: In your response you emphasized that the proposals' similarity was an apparent one. Are there, then, fundamental differences between the two?

F.F.: Indeed there are. A detailed analysis of the ECLAC proposal will show up fundamental differences; the similarities are more a matter of form than of substance. The first difference has to do with the method used in formulating the proposal. The ECLAC proposal was built upon the foundation of the realities of the 1980s, viewed within an international context and taking into account the cases that were

discussed and analysed and the dialogue maintained with the leading agents of development in Latin America. It was on the basis of this contrast between the Latin American development process and that of other world regions –rather than on the basis of some theoretical model– that the courses of action advocated in the proposal were determined to be both necessary and feasible for Latin America.

In contrast, the neoliberal proposal is based on a theoretical model that sets forth the conditions felt to be necessary for an economy to function well, and this model is then compared to actual conditions. The neoliberals then take a look at the ways in which one differs from the other and say: "we must change the existing situation so that it will more closely resemble the conditions dictated by the theoretical model".

The second difference has to do with the question of social equity. The neoliberal proposal assumes that social equity will be safeguarded through the operation of the market, though it introduces programmes to alleviate extreme poverty; its approach to the issue of social equity thus goes no further than recognizing the existence of extreme poverty. It is important to remember, however, that in a number of Latin American countries, a large percentage of the population is living in extreme poverty. The essential element in the ECLAC proposal is that social equity is considered to be necessary for competitiveness. This implies the inclusion of the various agents and

principal actors that take part, either directly or indirectly, in the production process. In the presence of severe social inequity, competitiveness will be eroded in the medium term.

The third difference involves the issue of technical progress. Technical progress is a pivotal component of the ECLAC proposal; it denotes a learning process incorporating various actors among whom there is a synergic relationship that requires time and a shared purpose. Technical progress is therefore a basic element in this proposal because it plays a crucial part in boosting productivity and competitiveness, which will make it possible to raise living standards and redistribute wealth in a more equitable fashion.

The fourth difference concerns the form of linkages with the global economy. ECLAC draws a distinction between genuine competitiveness, which necessarily entails technical progress, and the type of competitiveness that is based on wage cuts or the exploitation of natural resources. The neoliberal proposal stresses the importance of linkages with the global economy and exports, but makes no such distinction because technical progress is not a central consideration and the question of whether the type of competitiveness achieved is genuine or not is not regarded as important.

A fifth difference is in the area of production linkages. Improving such linkages presupposes recognition of the special features of the different sectors. Services, manufacturing and agriculture are not all the same. All these sectors have complementary yet different roles. Manufacturing plays a crucial role because it is the vector for technical progress, but it must be interlinked with the other sectors. The neoliberal proposal, however, starts off with the assumption of intersectoral neutrality; in other words, it considers that it makes no difference which production activity is promoted.

The sixth difference lies in the area of strategic consensus-building by the public and private sectors, which is another crucial component of the ECLAC proposal. In contrast, neoliberal thinking stresses the idea of a subsidiary role for the State: it considers that the smaller that role, the better, and even then only for tasks that the private sector cannot carry out. The ECLAC proposal, in contrast, discerns different roles in view of the synergy that is at work and the centrality of technical progress, because it sees the State as it really is.

A seventh difference is that, even though both proposals place importance on safeguarding macroeconomic equilibria, the ECLAC proposal maintains that, while this is a necessary condition, it is not sufficient in and of itself, hence the importance of a selective dynamic. There must, however, be some correspondence between what one wants to do and what it is institutionally possible to do. If the institutional structure is very weak, it must be strengthened, rather than using this fact as an argument for avoiding all forms of complementary selective action.

Finally, an open, participatory democratic system is an intrinsic part of the ECLAC proposal for changing production patterns with social equity, whereas in the neoliberal proposal the specific type of political system is more a matter of preference.

In sum, we can say that the four similarities—some of which are more apparent than real—are similarities in terms of emphasis, since there are significant substantive differences between the two proposals.

I. & D.: Are some issues given priority in this new ECLAC proposal?

F.F.: I don't think we can talk about priority issues, but the proposal does emphasize certain topics. The ECLAC proposal's main objectives are competitiveness and social equity, and it argues that the two ought to go hand in hand. Competitiveness without social equity will eventually prove to be ephemeral, while social equity without competitiveness—at least as we see it—may also be ephemeral.

A review of past experiences shows that importance has tended to be placed on only one of these dimensions. Nevertheless, and more specifically in the realm of economics, because competitiveness is a systemic phenomenon it also requires social equity. It is not simply an ethical, political or social problem: it is an economic problem in the strictest sense. As countries need to become more competitive—because they want to improve their linkages with the global economy and gain access to modern goods and services—their efforts to augment their competitiveness will facilitate progress towards social equity; in other words, social equity has to be achieved not only for ethical, political and social reasons, but also because it is necessary in order to gain access to modern goods and services.

There is no conclusive empirical evidence regarding the nature of the relationship between

population growth and social equity. It is true that, in Latin America, the countries with the fastest-growing populations have lower levels of social equity than the countries with slower population growth rates; but if we look outside the region and consider the economies of Asia, for example, we see that the Republic of Korea, which has a population growth rate of approximately 2% (i.e., higher than a number of Latin American countries), nevertheless has a much higher level of social equity. Obviously, however, when population growth rates are high, investment rates also need to be high; greater financial restraint on the part of the high-income segment of the population is called for, and the development process becomes more demanding in terms of the austerity effort required in order to undertake investment efforts commensurate with the needs of the population.

We cannot accept the somewhat deterministic proposition that if the population grows very rapidly, social equity is not possible. During various periods in the United States, the population was growing very swiftly, yet that expansion is advanced as one of the reasons for its prosperity. Thus, the rate of population growth is not a limiting factor *per se*.

I. & D.: Emphasis has been placed on the importance of science and technology and the need to integrate the public and private sectors. Is that emphasis reflected in the new proposal as well?

F.F.: In the past, work in the field of science and technology was pursued separately from production activities, not because entrepreneurs were intrinsically old-fashioned, but because they had no incentives to move into this field; instead, the focus was on institution-building. Training activities in Latin America during the past 30 or 40 years have considerably increased the pool of skilled human resources, but in coming years, in what are going to be more open economies, there will be a pressing need to absorb technical progress, which will be a crucial factor in business enterprises' survival. In ECLAC's view, this is a fundamental issue involving synergies between the public and private sectors, among large-, medium- and small-scale industry, and between the academic and production sectors. Technical progress is not a piece of merchandise that is acquired individually or instantaneously; it is learned as part of a

gradual process in which various actors take part over time. The greater the cohesiveness of businesses, of employers and workers, of the public and private sectors, the more fruitful the process of absorbing and disseminating technical progress will be.

I. & D.: What role do industrialization, international cooperation and small and medium-scale industry play in this proposal?

F.F.: We are entering into a new stage of industrialization; the last few years have been a time of transition. The unsatisfactory results of the preceding stage were foremost in the collective consciousness, the capacity of the existing public-sector apparatus was eroded, and in some areas the general inclination was to forget about manufacturing and return to the exploitation of natural resources, while in some other circles, the idea gained ground that neither manufacturing nor the exploitation of natural resources were necessary any longer, and that services alone were now needed. That period of confusion has passed, however, and there is a new conviction in Latin America and, especially, in the industrialized countries, that technical progress and the manufacturing sector are vital and inseparable.

In Latin America, the industrialization process of the past tended to turn its back on natural resources to some extent, partly as a reaction to earlier eras in which the main emphasis had been on such activities; but in the future we are going to have a manufacturing sector that links together a growing number of elements and that will be strengthened by the incorporation of the idea of environmental sustainability as part of the common-sense approach of the 1990s. Manufacturing is at the centre of these production linkages because it is the starting point for the dissemination of technical progress, but it is also linked with natural resources, services and the sphere of operation of the State: a State that is going to delegate responsibilities in the area of production to the existing stock of entrepreneurial capabilities; a State that is going to concentrate on the task of boosting productivity, the pace of technical progress and the level of training; a State that is going to promote social equity, or social cohesiveness, in order to give credibility to this proposed form of linkage with the global economy. This new form of industrialization is part of the process of changing production patterns. The entrepreneurial

sector will assume a clearly dominant position in terms of decision-making responsibilities, given the fact that it will be exposed to greater competition and will quite probably embark upon a phase of internationalization. In a number of countries we are already seeing firms which, in order to export, are having to invest in technological or collateral production activities.

Some countries of the region –not only the larger ones but medium-sized and smaller nations as well—are readying themselves to embark upon the internationalization of their leading firms as a means of consolidating their positions in the world economy. In this respect, international cooperation is expected to

make a significant contribution that will enable our countries to grow in an authentic manner on a sustained basis.

I. & D.: In the eyes of Fernando Fajnzylber, an ECLAC expert with a profound understanding of the realities of Latin America's situation, what is the basic significance of this new development proposal?

F.F.: The 1990s pose a challenge for Latin America, and the ECLAC proposal is the harbinger of a new and optimistic approach which calls for a great deal of hard work and effort in order to restore this continent to its rightful place in the international community.