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CEPAL REVIEW No. 22

Past, present and future of the international economic crisis

*Osvaldo Sunkel**

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

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

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

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I
The current dilemma

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

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

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

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

was undoubtedly connected with the changing international scenario of the post-war decades. The great world depression of 1929-1932 and the Second World War initially encouraged developmentist strategies. In contrast, the process of expansion of the international private financial system begun in the mid-1960s accentuated the influence of monetarism, culminating in the present international economic crisis. This crisis now confronts every country, more or less urgently, as the case may be, with a crucial economic policy dilemma: either submission to an extremely severe recessive adjustment of a monetarist character, such as transnational financial capitalism is trying to impose, or recovery and maintenance of a sufficient degree of freedom to implement reactivating policies in the framework of a strategy based on development of the national and regional productive and social forces.

II

The privatization of the international financial system

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

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

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

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

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

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

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

These were the decades from the 1930s to the 1960s, which were characterized in many Latin American countries by governments that suscribed to active State intervention in support of industrial development; investment in infrastructure; some structural reforms; income redistribution through an increase in social expenditure; and public policies favouring the middle income and low income groups.[1] In the international field regional integration and co-operation were actively fostered, as was public technical and economic co-operation between developed and underdeveloped countries, though this did not preclude denunciation of the iniquities and injustices of the system of international economic relations.

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

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

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

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

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

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

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

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

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

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

Source: Stephany Griffith-Jones, *International Finance and Latin America: Past and Future*, ALIDE (forthcoming), table 7.
[a] Refers to December for the years 1964 to 1981, and to September for 1982.

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

Table 2

LATIN AMERICA:[a] PERCENTAGE STRUCTURE OF NET INFLOW OF EXTERNAL RESOURCES, 1961-1968

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

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

[a]Includes the member countries of the Inter-American Development Bank and its subregional agencies.

[b]Includes the socialist countries and the OECD members except the United States.

[c]Includes credits for nationalization.

[d]Includes financial institutions other than banks.

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

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

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

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

Just as Monsieur Jourdain spoke prose un-

[3]See R. Devlin, "Commercial bank financed from the North and economic development of the South: congruence and conflict", and "Renegotiation of Latin America's debt: an analysis of the monopoly power of private banks", in CEPAL *Review*, No. 9, December 1979, and No. 20, August 1983, respectively.

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

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

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

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

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

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

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

III

Reactivation without a future

A recession in the central economies, less acute but more protracted than that of 1974-1975, has sufficed to answer the questions posed. In Chile and Mexico, in Argentina and Brazil, in Uruguay and Ecuador, the shortcomings of both monetarism and developmentism have been exposed. Even in Colombia, a country which throughout the last decade pursued prudent policies, prompted by a healthy pragmatism, without succumbing to the allurements of the flag-waggers on either side, there is now outward and visible evidence of the vulnerability and the structural and socio-political weaknesses which are characteristic of an underdeveloped and dependent economy, and which not even an admittedly reasonable mix of developmentist and monetarist policies has been able to overcome. In a burst of groundless optimism, many had believed these weaknesses to have been conquered or non-existent, on seeing that the Latin American economy continued to grow throughout the 1970s despite the relative stagnation of the economy of the centres and the petroleum crisis.

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

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

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

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

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

But this does not account for the fact that althought the crisis is indeed generalized, it is no less true that its intensity and characteristics differ markedly from one country to another. For example, the steepest drops in production, income and employment are observable chiefly in the countries of the Southern Cone and some others which have faithfully adhered to the monetarist prescriptions and the stabilization programmes of the International Monetary Fund.[6] This being so, even though the crisis may have a common external origin, there can be no doubt that its internal effects have been attenuated or aggravated by the countries' own characteristics, their previous development strategies and their policies for dealing with external problems.

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

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

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

[6]*Ibid.*, table 2.

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

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

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

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

Before attempting an interpretation of what I hold to be a deep-seated crisis of the post-war development style, which in my opinion calls for fundamental changes in the development stategies of Latin America and entails powerful regional and Third World co-operation, I must refer to the economic reactivation or recovery which is taking place in the United States, and on which many authorities in the national and international economic and financial world are pinning such high hopes.

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

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

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

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

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

These gloomy pronouncements coincide with those of various recent commentators and reports.[9] First, it is acknowledged that the recovery of the United States economy is very vigorous and that growth rates varying from 4.5 to 5.4% might be reached in 1984 (forecasts by OECD and the National Institute of Economic and Social Research, United Kingdom, respectively). Many commentators note, however, that the rate of recovery will slacken next year with the flagging of the initial drive generated by demand on the part of certain consumer expenditure sectors and by replenishment of inventories. They also think that the maintenance of high real interest rates, strengthened by enormous and persistent fiscal deficits and by the recovery itself, together with the weakness of other sectors of demand, part of which is filtered off towards imports favoured by an overvalued dollar, will hamper the recovery of investment, since there is a wide margin of idle capacity which is being taken up very slowly. In these circumstances, the initial impulse deriving from the expansion of consumer expenditure is not likely to result in an increase in investment, and unless this were to revive expansion could not be sustained.

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

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

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

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

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

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

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

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

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

The difference between the rates of economic recovery in the United States and in the European economies is also of importance for the Third World, since the members of the European Economic Community, whose growth will be less, absorb almost one-fourth of total world imports (excluding intra-Community trade) while the United States accounted for only 15% in 1980.

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

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

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

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

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

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

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

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

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

The nerves of the world financial authorities

are on edge and public opinion in the countries in question is by no means willing to see their tax payers helping to subsidize rash and irresponsible bankers while they themselves are subjected to austerity policies which reduce employment and social services. The same view is taken by the small and medium-sized banks, which put up much of the external financing of the big banks through syndicated loans, and which are now involved in the renegotiation processes being carried out by those that are the most deeply committed. The Michigan National Bank is suing the City Bank in a legal battle which is being watched with the keenest attention by international banks throughout the world. Michigan National is challenging City Bank's decision to effect a rollover of its share in a loan to Pemex without its consent. This is the first case of its type in recent years, and its settlement could have important repercussions on the viability of many recent debt renegotiations (*Ibid.*, p. 21).

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

IV
The exhaustion of the transnational growth style

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

Within the Marxist tradition, one of its most outstanding representatives, Professor Ernest Mandel, by the early 1970s already saw in the 1974-1975 recession one of the recurrent crises of the capitalist system, characterized since the mid-1960s by a decline in the profitability of enterprises in consequence of a twofold process of overaccumulation of capital and underconsumption. The boom phase of the lengthy cycle which the system is experiencing at present would seem to have come to an end in 1967, when a long recessive phase began.[13]

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

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

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

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

"Nor should one attribute the current level of unemployment exclusively to the demand-restraining policies of the last three years. Unemployment, particularly in Western Europe, was on an upward trend well before that, under the combined influence of slower growth, an expanding population and in some countries increases in the labour-force participation rates. Last but not least, the excessive rise in real wage costs and growing impediments to labour mobility gave a major incentive to labour-saving investment and innovations. It is against this background that the recent declines in real wages, beyond their direct contribution to slowing inflation, are a helpful element of adjustment."[14]

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

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

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

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

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

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

In order to see this phenomenon in a clearer light, it should be fitted into a broader historical framework (see table 4). This throws into relief something which economists had forgotten, or which, with their characteristic arrogance, they thought had been overcome by the progress and perfecting of economic policy: the irregular, cyclical nature of capitalist development, not only over the short and medium but also over the long term. It can be seen that from the beginning of the nineteenth century to our own time capitalist development has passed through several protracted phases of expansion and stagnation of production, per capita income, productive fixed capital formation and exports (see table 4). The first phase of expansion lasted almost a century, up to 1913; then supervened a long wave of recession between 1913 and 1950; next a new and very marked expansionist cycle followed, between 1950 and 1973; and later still, between 1973 and 1979, came the dawn of what would appear to be a new and long-drawn-out phase of recession. This last period really began several years before, and the last few years should also be added, making up a period of about 15 years of relative stagnation. It is not surprising, therefore, that there should have been a revival of Kondratieff's theory of long waves or cycles.[16] Does this last period really constitute the beginning of a lengthy phase of stagnation, or is it merely a matter of taking a deep breath, or heaving several profound sighs, before resuming the noteworthy rate of expansion characteristic of the period following the War? To decide this point, it is necessary to examine the nature of that extraordinary phase of expansion and to see whether the conditions on which it was based still exist or have

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

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

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

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

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

[a] Average for 13 countries.

[b] Average for 10 countries.

[c] 1978.

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

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

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

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

This incorporation of relatively idle factors of production into the economic process was possible thanks to an exceptional expansion of global demand. It was manifested mainly in the resumption of military expenditure on rearmament in consequence of the start of the cold war as from 1948, the Point IV programme to support the development of the less developed countries, the Marshall Plan for the reconstruction of the European countries devastated by the War, the creation of the European Common Market, the introduction of a set or redistribution and full employment policies, as part of the conception of the Welfare State, and the generalization of the United States life style and consumer patterns in the European countries and Japan at first, and later among the privileged sectors in the rest of the world.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Whatever the interpretation of this phenomenon, its effects on the international economy have been of the greatest importance. In the first place, it has caused a structural costs inflation effect on account of the restriction of supplies of a basic input; secondly, it has rendered obsolete a considerable proportion of the fixed capital structures whose operation depended upon petroleum, with the consequent capital losses; and in addition it has considerably enlarged the deficits on current account of the petroleum-importing countries. At the same time it contributed to the formation of the transnational banking system and the infusion of a formidable mass of liquidity of some US$ 2 000 billion into the international economic system during the past decade. This was a means of preventing an even worse recession, but it helped to generate very strong additional inflationary pressures, especially as a result of the 1979 oil crisis. Hence a new direction was given to economic policy: the economic growth and full employment targets adopted after the Second World War were abandoned, and every effort was concentrated on counteracting inflation and restoring basic systemic equilibria through a monetarist purge.[20]

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

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

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

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

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

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

In macroeconomic terms, the monetarist model consists essentially in liberalizing the financial market to the greatest possible extent, eliminating the fiscal deficit and strictly limiting monetary expansion so that the rate of interest may reach its "true" real level, and may serve as the chief instrument for encouraging saving and allocating investment resources. As long as these monetarist policies were applied in industrial countries of secondary importance in the international system, and in underdeveloped countries, the world economy was not affected. But when this programme began to be implemented in the United States economy, nominal and real interest rates shot up to extremely high levels, not only in that country but throughout the world, whereas they had been barely positive since the War. Thus the recession was exacerbated and prolonged, investment, particularly long-term investment, being restricted, and in many countries the problem of the external and internal debt reached boiling-point.

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

V

A future without reactivation

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

"The 1980s and 1990s are likely to be decades of profound change: changes in the technological sphere, with massive introduction of computers and the increasing use of robots in the production system; changes in the energy field, where oil will be replaced by other sources of energy; changes in consumer tastes and their repercussions on consumption patterns; changes in the international environment, especially with the increasing competitiveness of newly industrialized countries; and, last but not least, changes in the financial and international monetary system brought about by the increasing disorder of recent years.

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

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

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

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

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

Maddison's excellent and comprehensive study concludes that the expansionist "golden age" of the post-war decades came to an end in 1973, and that we are entering upon a new era which is structurally different from the period 1950-1970. The following would appear to be the most deep-seated causes: changes in economic policy, where the commitment to maintain high and stable levels of demand has faded out and the dominant influence has become that of monetarism, which as a pre-Keynesian economic theory shows little concern for growth and full employment; the collapse of the Bretton Woods system and its replacement by a system of fluctuating exchange rates, which introduces instability and uncertainty into the international economic system; changes in the labour and merchandise markets and the creation of strong inflationary expectations as a determining factor in price-fixing and wages; the oil shocks; the end of a phase of rapid increase in productivity in the European countries and Japan, which have now made up the leeway with which they started after the war and are approaching a slowly expanding technological frontier, determined essentially by the United States economy; the exhaustion of the productivity increments attributable to structural transfers from agriculture to industry and to international specialization; and, lastly, the establishment of restrictive policies which reduce productivity by stunting the growth of the stock of capital and undermining the efficiency of resource allocation.[24]

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

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

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

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

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

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

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

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

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

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

VI

Development and reactivation: conditioning factors and options

To serve the debt or not to serve it, that is the question today. All the Latin American governments declare that they want to serve it, but many have been unable to do so and have left matters in suspense for spells of as long as six months. Nor have they been able to let this situation drag

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

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

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

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

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

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

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

The adoption of measures favouring an internal reactivation geared to the application of a new development strategy calls for a freedom of manoeuvre in economic policy which the agreements with IMF prevent. As was pointed out at the beginning of the present article, the crucial dilemma facing economic policy at the present time is the question of how to achieve a severe compression of imports which will allow a considerable surplus to be built up on current account for the purpose of serving the external debt. The monetarist prescription, one of the objectives of which is to maintain or obtain external openness, consists in restricting global expenditure on consumption and investment to the point at which demand for imports dwindles sufficiently for this objective to be attained, while it is assumed at the same time that in this way resources will be set free to increase exports. According to our analysis, this approach is mistaken and overburdensome in economic and social terms. Mistaken, because the mobility of the factors of production is low and the short-, medium- and long-term prospects of the international economy are discouraging, so that a rapid and considerable expansion of the volume and value of exports is very unlikely unless as the consequence of a deliberate medium-term policy at the national and international level. Overcostly, in terms of employment and popular consumption, because the import demand function can be modified by direct acts of intervention to restrict imports through taxes, tariff duties and exchange controls, discriminating between those that are essential and those that are of less critical importance, and thus ensuring a level of investment, production and essential consumption which will minimize the effect of the crisis on employment and the levels of living of the lower-income sectors. While this policy involves a change in relative prices and assuredly a rise in price levels, it does not necessarily imply uncontrollable inflation in so far as idle capacity exists, a tax policy is applied which strictly limits the income and expenditure of the most affluent sectors, and an income policy is adopted which prevents unjustified wage increases.

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

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

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

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

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

Regional co-operation must play a role of the greatest importance in these new internal and international tasks: at the level of North-South negotiations, by persisting in the promotion of a reform of the international system such as that suggested above, and in this context, supporting the renegotiation of the external debt of countries so requiring on the terms indicated, but at the same time exploring the alternatives that might be adopted should this line of action fail. A second aspect of supreme significance is the revitalization of the regional integration institutions, which will facilitate inter-Latin American trade, payments and investment, and to which end greater room for manoeuvre in economic policy will also be needed. A further crucial aspect is support for all possible forms of integration and co-operation as between the Latin American region and the rest of the Third World. Lastly, it would be impossible to exaggerate the importance of economic and technical co-operation, in every respect, and particularly as regards exchange of experience and information on all topics pertinent to the new national and international development strategies suggested.

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

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