

CEPAL Review

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UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA
SANTIAGO, CHILE / DECEMBER 1981

CEPAL

Review

Number 15

Santiago, Chile

December 1981

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Development and equity

The challenge of the 1980s

*Enrique V. Iglesias**

This article reproduces, with a few changes, the Report which the author presented to the nineteenth session of CEPAL in his capacity as Executive Secretary of the Commission.

In the first part, he describes some of the main features of the international situation and the regional scene at the beginning of the 1980s. With regard to the international situation, he stresses the dangers of the protectionism that is reappearing in the industrialized economies; with respect to the regional scene, he stresses the inconsistency between the expanding and increasingly diversified base of production and the continuation of unresolved distribution problems and social inadequacies.

In the second part, he takes up two key concepts in the CEPAL theory of development—the centre-periphery system and industrialization—and uses them as guidelines for dealing with the problems of the present and the future. In so doing, he does not seek to make a retrospective eulogy of those concepts, but rather to use them to interpret some of the pressing economic problems of the region.

In the third part, he outlines the strategic problems of the coming years which, in his view, are those pertaining to international trade, external financing, the energy transition and food security.

In his final observations, he summarizes his vision: whilst it is very important to solve the external problems, it is on the domestic front that the groundwork for the region's development must be laid. On this front, he draws attention to three challenges: the reconciliation of economic and social efficiency, the modernization of private enterprise and of the State, and the bringing of all national policies into line with the criterion of integral development.

*Executive Secretary of CEPAL.

I

The international situation and the regional economic scene

A. THE INTERNATIONAL ECONOMIC SCENE

1. *The main features of the 1970s*

Two years ago, in our statement at La Paz,¹ we noted that the 1970s would be remembered for two main features: the culmination of a cycle of unprecedented growth begun in the 1950s, and the steep decline in that growth trend in the middle of the decade which had just ended.

This is not the place to recall, much less to describe in detail, the analyses carried out from the widest variety of angles, including of course those made by CEPAL into the causes of the phenomenon. It is enough to repeat what we have said on many occasions: that the rises in petroleum prices as from 1973 cannot really be regarded as the decisive factor in this setback. It would not be right to exaggerate their importance or to overlook other relevant developments. In fact, these rises (which only represented the correction of the distortions which had mounted up over a long period in which world economic growth was based on an artificially abundant and cheap supply of petroleum) in one way strengthened and in another way reflected a number of upheavals which had begun to be manifested in the economic evolution of the industrialized countries towards the end of the 1960s—in both the real and the financial spheres—and whose consequences hit the developing countries with singular force. Further on we shall analyse these factors in greater detail. For the time being, however, we should like to confine ourselves to recalling their main characteristics.

The first item of note is the persistence of the recessive situation which has characterized the world economy since 1974. From then until 1979 the rate of world economic growth stood at

¹ Enrique V. Iglesias, "Latin America on the threshold of the 1980s", *CEPAL Review*, No. 9, December 1979.

about 3.5%, in contrast with that of close to 5.5% recorded during the period 1960-1972. This rate was, moreover, markedly lower in the case of the developed market-economy countries. Naturally, this decline in the pace of economic growth had a negative impact on the evolution of world trade, which had played a very dynamic role during the preceding period but which in the 1970s expanded at a rate of only around 5.5% annually, in comparison with the figure of 8% recorded during the preceding decade.

Paradoxically, this drop in the growth rate was accompanied by a marked inflationary trend, the virulence of which may be gauged by observing the rates of variation of price levels in the industrialized countries. These countries broke with their historic inflation rates, which were usually lower than 5% a year, to reach rates close to 10% annually from 1974 onwards. The seeming paradox of this phenomenon occurring during a period of recession becomes easier to understand if account is taken of some of the theses which CEPAL has been putting forward since the middle of the previous decade concerning the structural nature of some causes of inflationary processes. Thus, in addition to the rises designed to determine more realistically the true social cost of petroleum and other basic commodities, other causes of the greater intensity and persistence of the inflationary processes involved the facility with which producers have been able to pass their cost increases on to the prices paid by consumers, the defects in price formation mechanisms in many sectors of economic activity, the insufficient rise in the productivity of capital and manpower, and the rapid growth of international liquidity during recent years.

This leads us to draw attention to a third characteristic in the economic pattern of the decade which has just ended, namely, that the economic difficulties of a structural nature which began to make themselves felt in some industrial centres early in the past decade, followed by the petroleum price adjustments at a later date, generated great disequilibria in the balance-of-payments current accounts of the majority of countries in the world as of 1974, so that it is estimated that the surplus on current account of the oil-exporting countries in 1980

amounted to approximately US\$ 115 billion, while the developing oil-importing countries and the industrialized economies recorded deficits of about US\$ 70 billion and US\$ 50 billion, respectively. It should be borne in mind that after the initial rises in the price of petroleum, this went down in real terms between 1975 and 1978, and was adjusted again in the last two years, with the result that the petroleum-exporting countries have managed to re-establish a current account surplus of similar proportions to the maximum recorded by them in 1974.

These disequilibria have led to a significant process of redistribution of current account surpluses and deficits between the OPEC countries, the industrialized economies and the developing countries — a process which would not have been possible without the unusual growth of the international financial markets, which was brought on precisely by the disequilibria referred to. This does not mean that that extraordinarily large-scale redistribution has taken place automatically, or easily. On the contrary, in order to effect it, it was necessary to solve problems of great complexity, many of which had never before been experienced. At all events, the disequilibria recorded in the external accounts of the different countries and the mechanisms used to promote the mass redistribution of financial resources at the international level constituted another of the leading characteristics of the decade just ended.

2. *The prospects for the 1980s*

The persistence of the characteristics which determined the uneven evolution of the international economy during the past decade and its recent decline means that, in the best of cases, the prospects for the 1980s are mediocre and even, from a more realistic point of view, disturbing. Considering the two most probable scenarios, a recent report² by the Organization for Economic Co-operation and Development (OECD) predicts annual economic growth

²See *Facing the Future: Report of the OECD Interfuture Project*.

rates for the period 1980-1990 of 3.6% or 3.0%, depending on whether the dynamism of the world economy remains concentrated in the industrialized countries or is diffused to a greater extent towards the developing countries. In 1980 the World Bank, for its part, had to revise the estimates made the preceding year in this respect, lowering the rate of growth foreseen for the 1980s to 3.7% annually in the most optimistic or 'high growth' hypothesis and to only 3.0% in the 'low growth' hypothesis, which, moreover, the Bank regards as being the most probable. These estimates imply the continuation of the weak rate of expansion of the world economy recorded during the past decade and even entertain the possibility that growth will decelerate.

These projections are explained by the structural nature of the factors behind this trend. I believe that by now the perplexity about their cyclical or long-standing character should have been cleared up. These are trends which originated in difficulties affecting those factors which have so far constituted the driving force behind world economic growth, and they make themselves felt essentially in the industrialized countries. This is reflected in the persistent drop in labour productivity and investment; the slow growth of the process of capital formation; the declining profitability of investment, as seen in the small share accounted for by profits in national income; the obstacles which the process of technological innovation runs up against in some countries, and the appearance of idle capacity in a growing number of key industrial sectors. Taken together, these factors are responsible for the gradual loss of competitiveness of some industrialized countries compared with their more efficient partners and even with an increasing number of developing countries. They are also forcing them to tackle a process of 'reindustrialization' aimed at modernizing those branches of production which have become less competitive and adjusting their economies to the new costs of energy and environmental protection. In turn, this is giving rise to a world-level process of industrial redeployment towards some countries on the periphery.

Although in the main developed economies these trends were in effect even prior to

the petroleum crisis, the rise in prices and the insecurity as regards supplies of this fuel and other strategic raw materials have been partially responsible for creating rigidities on the supply side which adversely affect the smooth functioning of the production systems of the industrial countries.

These rigidities are heightened by the fact already referred to that the economies of the industrialized countries have been subject to continuous inflationary pressures, even though their growth has been slow and their unemployment rates very high. Moreover, these inflationary pressures remained even during the period 1975-1978, when there were no rises in the prices of petroleum. These pressures, in their turn, have introduced an element of greater caution in the management of these economies, which is reflected in a general reluctance to adopt policies aimed at returning to normal levels of economic activity.

The structural nature of this situation becomes even more evident if it is borne in mind that these trends are rooted in the political, social and cultural conditioning factors created when the industrial societies themselves were expanding and developing and are especially a result of changes in the values or preferences of the public, the labour force and consumers. Thus, it is obvious that the emphasis on the quality of life in comparison with purely material progress, the quest for greater personal and community fulfilment, and the concern for the preservation of the environment in industrial societies have a strong influence on the direction and intensity of their development processes.

In these circumstances, it is not surprising that so thorough a break with the course followed by the world economy since the end of the war poses problems which cannot be adequately explained in the light of conventional economic wisdom and that it has led to disconcerting perplexities, impassioned debate and revisionist movements arising from completely opposite approaches.

According to some of these schools of thought, we are said to be living in a post-Keynesian period, in which the problems of the industrialized economies can no longer be resolved by formulas aimed at increasing effec-

tive demand through macroeconomic policies which imply massive intervention on the part of the State. Thus, other schools have recently emerged which stress aspects related to 'supply', whether in the sense of the higher costs associated with the use of non-renewable resources such as petroleum and with the preservation of the environment, or in the sense of the rigidities introduced by the new preferences of the labour force, or, finally, as regards the limitations placed on the mobilization of resources for investment due to wage increases and the need to allocate such resources, in fact, to activities related to energy, the development of natural resources and environmental protection. From another angle, we see the development of a controversy of worldwide scope, which is particularly lively in the case of Latin America, concerning the justification, areas and limits which should be assigned to public management in the economy *vis-à-vis* the role of market mechanisms.

The emergence of and the struggles between different schools of economic thought are the natural reaction to a period characterized by change, turbulence and uncertainties which the world had not experienced for at least the past 25 years. The fact that, beyond the recessive or inflationary syndrome associated with the enormous financial disequilibria which characterized the past decade, there are also structural trends such as those I have just described in action, makes us think that we are dealing with a long-standing, rather than a cyclical process, which cannot be understood or handled on the basis of conventional formulas and categories of analysis. If this is true, then even in the best of cases the turbulent decade which is now ending is bound to be followed by a period of transition in which the world economy must face very profound structural changes.

B. THE REGIONAL ECONOMIC SCENE

The sombre and uncertain prospects which are to be glimpsed on the international scene present a difficult challenge for the development of Latin America in the decade now beginning and, in particular, during its first five years.

Nevertheless, when analysing the options

open to the region during this period, it is necessary to assess not only the external and internal factors which will tend to restrict its economic and social growth, but also those factors which will facilitate its advance, for there can be no doubt that in its attempts to progress in the threefold and basic task of achieving a development process which is at once more equitable, dynamic and autonomous, Latin America now has greater assets than in the past, although at the same time it is limited by the persistence or increase of old restrictions and the emergence of new problems.

Naturally, obvious personal and time limitations prevent me on this occasion from drawing up a systematic balance sheet of the factors which favour or obstruct the progress of the region towards more advanced states of economic and social development. And obviously, too, any balance sheet of this kind would have to take due account of the different incidence or weight of these positive or negative elements in each one of the very diverse national situations present in the region.

In spite of these limitations—of which we are very much aware—allow me to present some background information and opinions on four main aspects of the recent pattern of development of Latin America which, together with others which we will consider in greater detail at the end of our report, will, in our opinion, have a very strong impact on the region's evolution in the decade on which we are now embarking. These four aspects are the ambivalent characteristics of the social development achieved; economic growth and its effects on Latin America's capacity to adapt to external contingencies; the process of expansion and diversification of exports, and the problems raised by the intensification and spread of inflationary processes throughout the region.

1. *The ambivalent features of social development*

Two years ago, when I analysed the great challenges which, in my view, Latin America would have to face up to during this decade (see footnote 1), I drew attention first to the

challenge of improving the social irradiation of economic growth so as to advance in the vital task of eradicating critical poverty and building societies in which income and, above all, opportunities are distributed more equitably.

I now wish to reaffirm that opinion and also reiterate the conviction I expressed then that in economies which have attained a degree of development such as those of Latin America, the vanquishing of extreme poverty constitutes a perfectly possible mission, so that, at least from a strictly economic point of view, there is no justification for the survival of vexing situations of neediness and for a failure to satisfy basic needs, such as those for food, health and education.

To say that a mission is possible certainly does not mean (and this should be reiterated) that it is easy. Quite the contrary, since it would be naive to overlook the gigantic organizational efforts which it would have to be made at all levels and the unwavering political will which it would be necessary to summon up and sustain in order to reorientate the development process in such a way that it would be possible to advance quickly and steadily in the great task of eliminating both the most pressing manifestations of extreme poverty and its main causes.

The enormous magnitude of this challenge is easier to grasp if account is taken of the deep-rooted and complex nature of the factors responsible for poverty and inequality in our countries. It must be recalled that, with few exceptions, Latin American societies have traditionally been characterized by situations of acute inequality in the distribution of income and wealth and in access to opportunities. And it is also necessary to recall that the deepest roots of that inequality are connected with such transcendental far-off but long-lasting historic phenomena as the rise and consolidation —during the Conquest and throughout the long colonial period— of highly stratified and structurally inequitable societies.

Naturally, the causes and manifestations of the inequality inherited from the colonial period were gradually modified in the century which followed Independence, during which the incidence of servile forms of work was attenuated, slavery was eliminated, and the

majority of our countries began to be integrated into the new international economy, receiving to their greater or lesser benefit the impulse of the dynamic forces generated by the Industrial Revolution. Those changes were consolidated over the past 50 years as the pattern of development altered, the pace of rural-urban migration stepped up, State economic and social action was considerably expanded and diversified, and their forms of insertion in the outside world were transformed.

In spite of these and other changes which, in general, helped to lighten the consequences of inequality and altered the level and characteristics of development, the concentration of income and wealth remained substantial. Thus, in accordance with the most recent calculations referring to seven countries which together represent nearly 80% of the population and slightly over 90% of the product of Latin America,³ it is estimated that in 1975 the richest 10% of the households were receiving slightly more than 47% of the total income, while the poorest 40% of the households did not even receive 8%. The high degree of inequality revealed by these figures becomes even more striking if the average incomes of the two groups are compared, for the average income of the first group was over 24 times that of the second group in 1975.

The most sobering fact brought out by these figures, however, is that between 1960 and 1975 inequality, far from being attenuated, increased in that the share of the income received by the poorest 40% of the population fell slightly and the share of the 10% of the population in the richest group and that of the 20% in the group just below the richest rose slightly (see table 1).

It is true that because these changes in the direction of greater inequality took place during a period of rapid economic growth, they were accompanied by increases in the absolute income of all groups, including those at the bottom of the distribution scale. But these increases were very different in each case. While the average income of the poorest 40% of households rose by less than US\$130 (at 1970

³These countries are Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

Table 1
 LATIN AMERICA: HOUSEHOLD INCOME DISTRIBUTION IN THE REGION
 AS A WHOLE IN 1960 AND 1975^a

Income strata	Share in total income		Income per household ^b (1970 dollars)	
	1960	1975	1960	1975
Poorest 20%	2.8	2.3	334	394
Next poorest 20%	5.9	5.4	707	902
Poorest 40%	8.7	7.7	520	648
30% following the poorest 40%	18.6	18.1	1 483	2 023
20% preceding the richest 10%	26.1	26.9	3 110	4 497
Richest 10%	46.6	47.3	11 142	15 829
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>2 389</i>	<i>3 348</i>

^a CEPAL estimates on the basis of national surveys for seven countries (Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela).

^b Corresponds to the concept of disposable income per household, estimated on the basis of the national accounts of each country.

values) during this period, that of the richest 10% rose by nearly US\$ 4 700. In other words, while the poor were only slightly less poor in 1975 than in 1960, the rich became much richer between those years.

Nevertheless, if we wish to gain a fuller picture of the social development which has occurred in Latin America during the last few decades, some additional data must be taken into account. It must be borne in mind that although income constitutes the main determinant of standards of living and well-being, these also depend on other variables which may evolve independently and even divergently from income. Among these variables, three which have a decisive effect on the quality of life and, above all, on the opportunities people have to improve their living conditions are education, health and nutrition. Therefore, no social development analysis can fail to examine and assess the way in which these variables have evolved.

On carrying out this task, it must be concluded that in the great majority of our countries there have been advances which, although not all of them have been as rapid as might have been desired, have been significant and have had a positive impact on distribution.

Let us consider first the evolution of some of the basic indicators which describe the educational situation in Latin America. As may be seen from table 2, for the region as a whole the rate of enrolment of children from 6 to 11 years was slightly over 57% in 1960, while two decades later it was over 82%. During this period, progress was even more rapid in the case of adolescents from 12 to 17 years, whose enrolment coefficient nearly doubled, rising from 35% to 63%. Where progress was truly explosive, however, was in the case of the enrolment of young people between the ages of 18 and 23 studying in institutions of higher education, for between 1960 and 1980 this rate increased more than fourfold, rising from slightly over 6% to 26%.

It should be emphasized that this increase in rates of enrolment was not only rapid but also widespread, in that it occurred at all three levels of education in all the countries of the region.

Thanks to these advances, the enrolment of children from 6 to 11 is now close to total not only in Argentina, Barbados and Guyana—in all of which it was very high already in 1960—but also in Costa Rica, Chile, Cuba and Jamaica, where 20 years ago it fluctuated in the

neighbourhood of 75%. Progress has been even more rapid in relative terms in countries such as Bolivia, Brazil, Colombia and Honduras, where in 1960 over half of the children from 6 to 11 were not enrolled in basic education, whereas today the figure enrolled is between 70% and 77%, while progress is still more notable in Panama, whose coefficient rose from 68% to 96%, and above all in Mexico, where it climbed from 58% to 94%.

Analysis of the rates of enrolment of adolescents from 12 to 17 years of age and of young people from 18 to 23 years shows equally significant progress which, for reasons of time, I shall refrain from describing but which is clearly indicated by the figures in table 2.

There are, however, two additional considerations which I consider it indispensable to dwell on in order that the profound significance of the rapid and widespread advance reflected in these statistics may be appreciated.

The first of these is that the significant rise in all these coefficients took place in a period in which the young population of Latin America was soaring. For this reason, it would have required a very considerable increase in absolute terms in the resources allocated to the education sector just to maintain the enrolment rates. The fact that in these circumstances those coefficients should have risen markedly in nearly every country is an indication of the magnitude of the truly praiseworthy effort

Table 2

LATIN AMERICA: RATES OF ENROLMENT BY AGE, IN 1960 AND 1980
(Percentages)

	6-11 años		12-17 years		18-23 years	
	1960	1980	1960	1980	1960	1980
Argentina	91.2	99.9	48.1	72.7	13.2	36.7
Barbados	93.5	98.5	50.5	65.2	1.3	8.6
Bolivia	45.1	76.6	29.0	54.2	5.0	17.1
Brazil	47.7	76.2	29.6	58.6	4.7	32.0
Colombia	47.9	70.0	28.8	63.8	4.4	32.9
Costa Rica	74.4	97.5	35.7	54.7	8.0	21.4
Cuba	77.7	100.0	43.0	83.4	6.6	29.9
Chile	76.4	100.0	54.7	86.5	7.2	22.2
Ecuador	66.3	80.0	30.3	60.8	5.1	28.5
El Salvador	48.7	69.2	40.3	58.1	8.5	18.9
Guatemala	32.0	53.3	17.7	33.8	3.6	10.1
Guyana	90.5	95.6	62.8	65.9	4.7	10.9
Haiti	33.6	91.4	16.4	21.9	1.9	4.3
Honduras	49.5	71.3	24.6	44.7	3.2	14.8
Jamaica	74.7	94.8	57.3	71.6	2.7	10.4
Mexico	58.4	94.2	37.4	67.3	4.7	18.2
Nicaragua	42.9	60.8	29.7	53.7	3.6	18.6
Panama	68.3	95.7	50.3	83.2	12.7	43.3
Paraguay	69.7	80.0	44.8	51.9	5.8	13.3
Peru	56.7	83.9	43.2	84.0	13.0	32.6
Dominican Republic	66.8	82.2	39.4	64.4	3.7	20.6
Trinidad and Tobago	66.1	77.5	51.8	47.6	3.3	7.6
Uruguay	89.9	-	53.2	67.2	19.1	24.3
Venezuela	68.8	83.2	49.0	60.9	8.6	24.0
<i>Average</i>	<i>57.3</i>	<i>82.3</i>	<i>35.4</i>	<i>63.3</i>	<i>6.3</i>	<i>26.1</i>

Source: CEPAL, on the basis of UNESCO data.

made not only by the governments of the region but by Latin American society as a whole.

The second observation is no less important and is related to the redistribution aspects of this expansion of the education system and in particular to its implications for equality of opportunity. This significant increase in the coverage of education has implications which are clearly favourable from the point of view of distribution, in that it benefits mostly and in some cases exclusively the middle sectors and the relatively poorer groups of the population. The reason for this is simple but fundamental: for a long time the overwhelming majority of the children of the rich have completed their basic education, a very high proportion of them have completed their secondary education, and a much higher percentage of them than of children from middle-income and especially low-income households have entered institutions of higher learning. Consequently, the broadening of the coverage of the education system systematically favours those who previously had no access to it, that is to say, depending on national circumstances and the levels of education in question, primarily the children of poor or middle-income families.

Very similar considerations apply with respect to the participation of high, middle and low-income groups in the social progress reflected by the evolution of a basic health indicator such as infant mortality. Here again it may be noted that significant and widespread progress has been made, with the result that in the region as a whole the infant mortality rate has dropped from 105 per thousand in the first half of the 1960s to 73 per thousand in the second half of the last decade (see table 3). And here again it is apparent that this advance is due primarily and virtually exclusively to the improvement of the situation of the poorer groups, since for many years previously the richer sectors, including the middle-income sectors, had the resources to keep their children from dying before they were a year old.

If, for the sake of brevity, our final consideration is that relating to a major indicator of nutrition such as the supply of calories as a percentage of average requirements, the picture which emerges is similar, as are, to some extent, its social implications. As may be seen

from table 4, between the beginning of the 1960s and the middle of the past decade the respective coefficients rose in all the 19 Latin American countries for which information is available, and in 11 of them their value was over 100% during the last period referred to. Of course, as it is true of all averages, this one says nothing about the differences which may exist at a given moment between the coefficients corresponding to the different socio-economic strata, but even so the increase over time must have been due primarily to the rise in the coefficients of the groups in the lower half of the distribution scale, since on the one hand—to repeat an observation made earlier—it is reasonable to suppose that the other groups have long been meeting their basic calory needs, and on the other, the increase in consumption of the higher groups, outside of certain limits, runs counter to obvious restrictions of a biological nature.

Table 3

LATIN AMERICA: INFANT MORTALITY
(Rates per thousand live births)

	1960-1975	1975-1980
Argentina	54	41
Barbados	...	...
Bolivia	225	142
Brazil	112	82
Colombia	85	59
Costa Rica	80	45
Chile	107	62
Ecuador	132	83
El Salvador	123	79
Guatemala	128	89
Guyana	...	...
Haiti	171	121
Honduras	137	95
Jamaica	...	...
Mexico	86	60
Nicaragua	137	96
Panama	67	38
Paraguay	81	49
Peru	161	109
Dominican Republic	110	74
Trinidad and Tobago	...	...
Uruguay	49	42
Venezuela	77	45
<i>Average</i>	105	73

Source: CELADE, on the basis of official information.

Table 4
LATIN AMERICA: CALORY INTAKE AS
A PERCENTAGE OF AVERAGE
REQUIREMENTS
(Percentages)

	1961-1963	1975-1977
Argentina	137.9	143.1
Barbados	...	...
Bolivia	69.5	91.0
Brazil	102.8	108.8
Colombia	94.3	98.4
Costa Rica	93.2	107.2
Cuba	...	...
Chile	110.1	114.1
Ecuador	80.4	92.0
El Salvador	78.9	90.7
Guatemala	82.5	93.9
Guyana	...	...
Haiti	85.0	88.4
Honduras	95.6	102.4
Jamaica	...	...
Mexico	110.9	116.8
Nicaragua	95.8	107.6
Panama	100.3	102.1
Paraguay	108.4	122.3
Peru	96.8	99.2
Dominican Republic	81.9	92.1
Trinidad and Tobago	...	...
Uruguay	124.9	132.7
Venezuela	95.6	109.8
<i>Average</i>	<i>104.8</i>	<i>110.9</i>

Source: CEPAL, on the basis of data from FAO and WHO.

Naturally, recognition of the advances shown by the statistical data analysed and a description of their favourable implications with regard to distribution is no indication whatsoever—and stress must be laid on this point—that the progress made in fields like education, health and nutrition is sufficient. Much less is it intended to imply that the present situation is satisfactory. Nothing could be further from our intention or from our way of viewing the problem. As we pointed out at the beginning of our observations, we still think that the achievement of a better social distribution of the fruits of economic growth should constitute the main objective of development policies in Latin America. And this conviction is born of an examination of the socio-economic

situation which prevails in our countries, which in the majority of cases—and notwithstanding the progress attained— suffers from gaps and disequilibria which are not only ethically unacceptable but are also economically unjustifiable in Latin America today.

2. Growth and transformation of the economy and greater defence capacity of the region

In our addresses in Port of Spain, Guatemala City and La Paz, we analysed the substantial growth and the considerable transformation of the economy of Latin America during the past 30 years and pointed out that these developments help to explain what we call the greater defence capacity of the region in dealing with contingencies coming from the exterior.

To judge the magnitude and unity of this growth and transformation process, it is enough to repeat that in the course of the past three decades the total product of Latin America increased fivefold in real terms while that of manufacturing rose more than sixfold. At the same time—and in particular during the previous decade, agriculture advanced considerably and showed substantial diversification, financial activities were expanded and modernized, and the investment coefficient rose gradually but persistently. Of even greater importance, however, is that over those 30 years—and again with greater force in recent years— both the education level and the skills structure of the labour force improved markedly in virtually all the countries of the region.

As a result of these advances and changes, Latin America now has a broader, more highly diversified and flexible production base than in the past. And, in turn, as a consequence of this structural transformation, there has been an increase in the region's capacity both to meet sudden challenges from the external economic situation and to seize the opportunities offered by the changing international scenario.

Since in our previous statements we have pointed to some of the many developments which reflect these new and more favourable structural characteristics of the Latin American economy, on this occasion we wish to put our emphasis primarily on the significance of two events of recent years which in our view,

constitute new and important indications of that increased capacity for defence and adaptation available to the region today.

The first of these is the relatively high economic dynamism displayed by Latin America over the last two years. As may be seen from table 5, the region's overall economic growth rate, after falling to a level of only 3.3% in 1975 because of the international crisis that year and oscillating in the neighbourhood of 4.8% for the next three years, was nearly 6% in the period 1979-1980.

It is true that this rate was achieved partly because of the marked elevation of external indebtedness in the majority of Latin American countries. It is also true that it was slightly more than one point below the very high economic growth rate achieved by the region, on average, during the period 1970-1974.

To assess its real significance, however, it is necessary to bear in mind the very different circumstances which prevailed on the international economic scene at the beginning of the previous decade and during the past two years. In the former period, both the production of the industrialized economies and world trade were in full expansion, and this acted as a powerful stimulus for the growth of the economies of the periphery.

During the biennium 1979-1980, however, as we have already pointed out, the situation was very different. On the one hand, economic activity in the industrialized countries grew by only a little over 3% in 1979 and by only 1.5% in 1980, while it grew much more slowly in the case of the United States, which is well known to have special influence on the export possibilities and ultimately on the economic growth

Table 5

LATIN AMERICA: EVOLUTION OF THE GROSS DOMESTIC PRODUCT
(Annual growth rates)

	1970-1974	1975	1976	1977	1978	1979	1980 ^a
Argentina	4.1	-0.9	-0.2	6.0	-3.9	6.8	1.1
Bolivia	5.8	5.1	6.8	3.4	2.8	1.4	1.0
Brazil	11.5	5.7	9.0	4.7	6.0	6.4	8.0
Colombia	6.9	4.3	4.2	4.8	8.8	5.1	4.1
Costa Rica	7.1	2.1	5.5	8.9	5.7	4.3	1.7
Cuba ^b	8.7 ^c	12.3	3.5	3.1	8.2	1.9	1.4
Chile	2.6	-14.4	3.8	9.7	8.3	8.2	6.5
Ecuador	8.6	6.8	9.3	7.5	5.4	5.4	6.3
El Salvador	4.9	5.6	4.0	5.9	4.4	-1.6	-9.9
Guatemala	6.4	1.9	7.4	7.8	5.0	4.5	3.4
Haiti	4.7	2.2	5.3	1.3	4.4	4.7	5.2
Honduras	3.5	-2.0	7.0	5.8	7.9	6.8	1.3
Mexico	6.2	4.1	2.1	3.3	7.3	8.0	7.4
Nicaragua	5.3	2.2	5.0	6.3	-7.2	-25.1	10.7
Panama	5.2	0.6	-1.1	1.6	4.1	5.7	4.9
Paraguay	6.4	6.3	7.0	12.8	10.8	10.7	11.0
Peru	4.8	4.5	2.0	-0.1	-0.7	3.4	3.1
Dominican Republic	10.1	5.2	6.7	5.5	2.2	4.8	5.2
Uruguay	1.3	4.8	4.2	1.8	6.2	8.7	4.5
Venezuela	5.2	5.9	8.4	6.8	3.1	0.7	1.6
Latin America ^d	7.1	3.3	5.0	4.8	4.7	6.0	5.7

Source: CEPAL, on the basis of official figures.

^aPreliminary estimates, subject to revision.

^bGrowth rates relate to the material product.

^c1971-1974.

^dExcluding Cuba.

of many countries of the region. On the other hand, this sluggish behaviour of the industrialized economies and the marked protectionist trends discernible in not a few of them were partially responsible for the perceptible reduction in the dynamism of world trade, thereby limiting the possibilities for Latin American exports to expand further. Thus, after increasing at an average rate of approximately 5.5% during the period 1977-1979, the volume of world trade rose by barely 1% in 1980.⁴ Although the main cause of this marked reduction in the growth rate of world trade was the drop of 10% in the volume of petroleum exports, it was also due to the much slower expansion of exports of both manufactures and agricultural commodities in 1980.

Actually, the notable decline in the dynamism of the world economy in 1980 is eloquently demonstrated by the fact that during that year four key variables (total production, industrial production, total trade and trade in manufactures) grew at the lowest rates recorded in the past quarter century, with the sole exception of those for 1958 and 1975.

Thus, it is in this external context characterized by slower growth both of the economic activity of the centre countries and of the volume of world trade that consideration should be given to the economic advance of the order of 6% annually achieved by the region during the period since our meeting in La Paz early in 1979.

And it is also in the context of that very changing international scene, which was in general more unfavourable than that which prevailed up to 1973, that we should analyse the second main fact to which I wish to refer, i.e., the notable expansion and increasing diversification of Latin American exports during the past decade.

3. *The expansion and diversification of exports*

In 1970 the region exported goods to a total value of US\$14.3 billion; by 1980 these sales had increased well over sixfold, amounting to close to US\$ 92 billion. Naturally, this increase

is partly a reflection of the effects of international inflation—which bore some of the responsibility for raising the dollar prices of many products exported by the region—and partly the result of the repeated and substantial rises in international petroleum prices since 1973. Nevertheless, it also constitutes a clear demonstration of the increasing capacity of Latin America to place its products on the world market. If from the region as a whole we exclude the oil-exporting countries, and if instead of considering the value of the sales we consider their volume, in short, if we analyse the volume of exports of the non-oil-exporting countries, we find that over the past decade it increased by 111%. What is more significant however, is that the growth rate of the volume of exports of those countries rose from an average of 4.8% during the five-year period 1971-1975 to one of 8.7% in the next five years. In other words, the rate of expansion of the real external sales of the non-oil-exporting economies of the region increased very sharply precisely during the period in which the dynamism of the industrialized economies, which have traditionally constituted the main markets for Latin American exports, weakened.

Moreover, the significant and steady increase in external sales of the region has been accompanied by a gradual and considerable diversification in their structure. An eloquent indicator of this trend has been the growing participation of exports of manufactures and semi-manufactures in Latin America's total sales. Thus, in 1965 this share was only 8.5%, but five years later it had already climbed to 15%, and in 1978—the last year for which figures are available it again increased substantially, reaching nearly 26% of the total value of exports of goods.

The trend towards export diversification is also clearly shown if we observe, first, the evolution of the relative share of the principal export product in the total external sales of each country and, second, the share of non-traditional exports. Thus, whilst the relative weight of the principal export product has declined in the large majority of the economies of the region, there has been an increase in the percentage of total external sales represented by exports of a large number of goods which were

⁴See GATT, *Press Release*, 10 March 1981, p. 1.

previously sold only on the domestic market or were not even produced locally.

Notable examples of this dual and simultaneous process are found in the exporting experiences of economies as dissimilar as those of Brazil, Chile, the Dominican Republic and Uruguay.

In the first of these countries, coffee in 1970 still represented over 34% of total exports of goods, while in the same year manufactured products constituted less than a quarter. In 1980, on the other hand, the share of coffee had dropped to approximately 12.5% while that of industrial goods had risen to nearly 57%.

At the beginning of the past decade, copper generated three-quarters of Chile's total external sales, whilst the so-called non-traditional exports contributed less than 8%. Ten years later, the relative share of copper had fallen to about 45% whereas the value of non-traditional exports had increased almost 19-fold to over a third of the total value exported.

In 1970, over 70% of the export earnings of the Dominican Republic came from sales of sugar, coffee and cocoa, and the first of those commodities alone brought in nearly half the total value of the country's exports. Sales of non-traditional products, on the other hand, generated only 12% of the value exported. By 1980 the picture had changed radically. Thanks to the inclusion of gold, ferronickel and other products in the export pattern, the relative share of non-traditional exports had risen to over 45% and thus was slightly larger than the combined share of sugar, coffee and cocoa.

Finally, in Uruguay, traditional export products such as meat, wool, leather and linseed oil accounted for nearly 80% of the total value of exports in 1970, with the other exports generating the remaining fifth. A decade later the share of the traditional products had fallen to under 40% and was thus far surpassed by the 60% made up of non-traditional exports.

4. *The acceleration and spread of inflation*

However, along with advances such as those recorded in the level and compositions of exports, there have been serious setbacks in recent years. One of the gravest of these has

been the intensification and spread of the problem of inflation, whose disturbing consequences for the management of short-term economic policy and negative effects on economic growth, income distribution and even on political stability and social order can certainly not be underestimated.

It is well known that in the course of the past decade inflation became more persistent, intense and hard to handle virtually everywhere in the world. Thus, in the industrialized countries the disconcerting phenomenon of stagflation emerged, which it has not been possible to explain at the theoretical level, much less to deal with successfully at the practical level by economic policy. Naturally, this accentuation of inflationary processes in the central economies and the sharp rises in international fuel prices which occurred in the middle and at the end of the past decade had a decisive effect on the rate of increase of prices in the majority of countries of the region. Thus, continuous and virulent inflationary processes have in recent years become a characteristic feature of the Latin American economic scene.

All this is well known. It is, however, frequently forgotten how different the situation which the region is facing in this regard is at present in comparison with that which prevailed in it only 10 years ago.

Up until the beginning of the past decade high and persistent inflation affected only the economies of the Southern Cone and to a lesser extent, that of Brazil. In the rest of the continent, inflationary processes were either moderate—as in Colombia, Mexico and Peru—or virtually non-existent—as in Venezuela and the majority of the Central American and Caribbean economies. In 1970, for example, 13 countries, or over half of the 22 for which information is available, experienced price rises of under 4.5%, and in five others the price level rose by less than 10%. In fact, in that year only Brazil and the Southern Cone countries had 2-digit inflation, and the maximum increase in prices in the region—which occurred in Chile—was one of 35%. The simple average rate of inflation in Latin America—without considering the three southern countries—was thus barely 4%.

Four years later, the inflationary panorama had changed radically as a result of increased inflation in the industrialized countries and the considerable readjustment of petroleum prices adopted by the OPEC countries at the end of 1973. Thus, in 1974 there was no longer any country in Latin America in which prices rose less than 10%, so that 2-digit inflation became the rule. What is more, in half of the Latin American economies the rate of inflation fluctuated between 15% and 30% whereas in five other countries prices rose by between 30% and 40%. The simple average rate of inflation in Latin America—again excluding the Southern Cone countries, in all of which prices rose with much greater intensity—was 22% that year, or exactly five times as high as the average recorded in 1970.

In the following years the rate of price increases tended to become more moderate but was far from returning to the low levels which had prevailed up to the beginning of the decade. For example, in 1978 the average rate of inflation was 17.5%, which while considerably

lower than that recorded for 1974 was nevertheless nearly four times as high as that for 1970.

But this improvement, in addition to being modest, was transitory. The situation worsened again in 1979 when the inflation rate began to rise again in the central economies and the international price of hydrocarbons in real terms again increased. Thus, during that year and also in 1980 the inflationary panorama was similar to that prevailing in 1974. In fact, last year the rate of inflation was under 10% in only three countries, while in another 11 economies—all of them characterized in the past by the notable stability of their price levels—the rise in consumer prices fluctuated between 14% and 24%. The intensity of the inflationary process was even greater in Colombia, Jamaica, Mexico and Chile, where prices rose by close to 30%, and higher still in Uruguay (43%) and Peru (61%). The highest rates of inflation, however, were recorded in Argentina and Brazil, where consumer prices increased by approximately 90% during the year.

II

Centre periphery relations and the industrialization process in the context of the present situation

The view of the world and regional scene which I have just outlined raises complex questions as regards the future course of the region's development and the most appropriate guidelines for and means of tackling it.

In order to answer these questions we think that it would be useful to take as a guide what have been considered to be the *idées-force* of the CEPAL approach. We shall do so with a view to the questions of today and tomorrow, without pausing for retrospective considerations, on which there is ample documentation.

Whatever our points of view, we believe that they should above all be governed by a large dose of humility. The mayor changes in

development and their uncertain eventual concrete results call for prudence and the rejection of all dogmatic pretensions. However, it would be unpardonable for caution to inhibit us from doing our duty of establishing hypotheses and suggesting guidelines for venturing into the unknown territory glimpsed ahead.

As is generally known, the root of CEPAL's institutional thinking lies in its ideas on the centre-periphery system and industrialization, the latter taken in its broadest sense. The two are closely related, and their reciprocal characteristics and influences are indispensable elements both for an overall appreciation of economic development and for understanding the most decisive question: the degree of social spread of this process.

A. THE CENTRE-PERIPHERY SYSTEM

1. *Basic concepts and relationships*

As regards the first point, it seems obvious that the centre and the periphery continue to exist in the world setup, differentiated by their internal structures and by the nature and consequences of the relations between them.

I have already stressed the changes and progress which have taken place in the structure of production of our countries, and the ways in which they have changed their forms of external relationships. However, it should be recognized that to a considerable extent they continue to take part in the international scheme of division of labour as producers of primary goods, which still account for over 70% of their exports. This has given rise to what has been described as the structural asymmetry of export and import patterns, since a decisive factor in the latter—quantitatively and qualitatively speaking—is constituted by industrial goods, a disassociation which naturally differs manifestly from that observed between the structures of exports and imports in the central economies.

The world trade system thus continues to expose the region to repeated current account disequilibria, erratic behaviour of the supply of and demand for primary exports, the restrictions raised by new and old forms of protectionism in the central economies, and an adverse or inadequate evolution of the terms of trade.

As regards the latter, the increase in the prices for oil—which only benefitted a few of the area's economies—and other commodities at the start of the 1970s led some people to think that a new future of sustained improvement of the terms of trade was opening up, in favour of our main exports. In actual fact, however, this has not come to pass to the extent expected, and the terms of trade have continued to advance and retreat fairly erratically.

On the other hand, no substantial change seems to have occurred in other reflections of Latin America's special links with the central economies. Technological subordination is one of these and the most durable, although in this field, too, progress may be observed, par-

ticularly in the countries in which the diversification of production has made most progress.

The flow of direct investment—which is usually considered to be a primordial mechanism for the spread of technical progress—has continued to be centralized in the industrialized economies, helping to widen the 'productivity gap' arising out of the uneven possibilities of accumulation and innovation of the two universes. In recent years this gap has been called in question owing to the industrial crisis and the decline in the growth rate of productivity in an increasing number of activities in the industrial countries. At all events, between the mid-1960s (1966-1967) and the mid-1970s (1975), accumulated direct investment rose from around US\$ 70 billion to US\$ 186.5 billion in the developed countries, and from US\$ 18.4 to US\$ 37.6 billion in Latin America, of which half was based in Brazil and Mexico.

Despite these manifest facts, it is not superfluous to repeat that they emerge in connexion with a regional economy which has been substantially transformed and strengthened in recent decades. Although this statement is valid to very different extents in the different countries and is subject to various types of reservations, it seems clear that the change covers the majority of countries and the majority of the population of Latin America.

This is decisively due to the structural consequences of the period characterized by what is known as 'inward-directed development', and particularly the progress in industrialization. This factor has also had a direct or indirect impact on achievements involving the diversification of the patterns of external trade, and particularly on the proportion of manufactured or agro-industrial exports.

This phenomenon is one of the primordial reasons for the advantageous position of Latin America in the periphery setup. According to United Nations information, this may be summed up in the fact that its per capita product at the end of the 1970s was close on four times that of the rest of the developing world. However, it is no less significant that the regional level in this regard was slightly less than a fifth of that of the industrialized economies. In other words, although these changes had caused the centre to become less monolithic than in the past and

the developing countries less peripheral, there can be no doubt that the Latin American economies continued to be closer to the periphery than to the centre, although this situation requires further clarification as regards the status of some particular countries or specific social groups.

From another standpoint, I should like to reiterate the opinion I formulated before, that all of this has contributed to a greater defence capacity in the region *vis-à-vis* external events. Despite the significant and generally damaging repercussions of the upsets on the international scene, Latin America has been able to guard itself against them to an extent which certainly has no parallel with the traumatic consequences which these upsets used to inflict in the past.

Briefly, and to sum up, then, although the Latin American economies continue to be part of the periphery in the international division of labour, they are no longer the same—structurally—as in the period of ‘outward-directed growth’, even as regards their degree of autonomy (or dependency) *vis-à-vis* the exterior.

2. The centre-periphery scheme and the new background for the world dialogue

But it is not only Latin America which has changed in the course of the last decade; the world, too, has changed, and along with it the forms of interaction of the central and peripheral countries. This obliges us to study these changes more closely.

The most important modifications which have taken place include:

- the increasing multi-polarity which has emerged among the centres. This has been aggravated by the progressive dispersal of economic power within the western capitalist world—where leadership has begun to be shared between the United States, the European Community and Japan instead of the clear hegemony of one of these which dominated the postwar period until the end of the 1960s—and by the growing diversification within the socialist sphere;

- the end of the persistent and noteworthy expansionary trend experienced by the industrialized countries following the postwar

period and the start of a period of upsets, uncertainty and transition, originating in structural causes to which I have already referred;

- the drop in the formerly very high growth rate of the centrally-planned economies;

- the growing importance which the peripheral countries have acquired as elements for ensuring the stability and the growth of the international economy as a whole;

- the strengthening of the relations of interdependence among all the countries of the world in a scenario characterized by a growing process of transnationalization.

I should like to lay particular stress in this last-mentioned phenomenon. The fact that this increasing interdependence may be used—and in fact is—by the industrialized countries to disseminate images favourable to the promotion of their own interests should not lead us to ignore the fact that this is a real trend in the contemporary international system. It is a phenomenon which, although representing interdependence between non-equals, has given rise to new forms of relationships not only between the industrially advanced economies but also between these and the peripheral countries.

If we limit ourselves to reviewing the latter group, we have to conclude that as a consequence of these new realities, the forms of these relations have changed as well as the agents responsible for channelling them and the problems they involve.

Firstly, the forms of centre-periphery relations have changed because we have progressed from the type of external linkage which prevailed in the 1950s—which was fundamentally expressed in exports of primary goods, foreign investment in mining, and external aid—to a different system in which a growing number of developing countries, although continuing to be exporters of raw materials, have achieved a significant share in trade in manufactures, have become closely linked to the international financial markets, and are seeking new forms of relations with the transnational corporations and new means of acquiring foreign technology.

The agents of the process have also

changed. In the 1950s the main partners in the dialogue with the governments of the developing countries were the international financial bodies and foreign enterprises, mostly established in basic goods-producing activities. Today, many of these enterprises have been nationalized, and new partners in the dialogue have emerged connected with financial activities and the manufacturing sector.

Lastly, the nature of the problems around which these relations revolve has changed, and the problems which traditionally affected centre-periphery relations are now accompanied—without detracting from their importance—by the problems of energy, protectionism and access to the markets of the industrialized countries, industrial redeployment, the fluidity and predictability of the international financial markets, the capacity for the absorption and adaptation of foreign technology, and the improvement of contract terms with the transnational corporations.

In other words, although the centre-periphery system continues to be valid, particularly as a category of analysis, it must today be applied to an international structure different from that of the past. This requires a reinterpretation of the relations between the two segments of the system, in the light of which the centres will probably present a less monolithic image and some developing countries will occupy a less peripheral position. This phenomenon, which becomes clearer every day, was already anticipated by one of the best-remembered of CEPAL's thinkers, José Medina Echavarría, when, referring to an "obsessive topic of recent years", he raised "the possibility that some day the present system of dependence may become antiquated owing to the fast or slow modification of its nature as unilateral hegemonic dependence", or when he suggested the emergence of "a new form of this dependence as a plurilateral relationship".

We too observe that, under the impact of the transnationalization process, the unidirectional form of external dependence to which we were accustomed has changed and given way to the emergence of multiple power circuits which link developed and developing countries in different ways, depending on the interests or agents operating in each. For

example, there is the oil circuit and the circuit linked with other mineral products of long-run crucial importance, as well as the food, technology and finance circuits. Each of these revolves around different interests, is operated by different agents, and involves different groups of countries with a likewise different relation of forces. All of this has helped to alter centre-periphery relations, and we are today thus faced with a far more complex world whose new dynamics we must understand as a matter of urgency if we wish to strengthen our forms of international insertion.

B. SIGNIFICANCE AND PRIORITY OF INDUSTRIALIZATION

As we said earlier, the level of priority conferred on the industrialization process has constituted another pillar of the CEPAL approach. Before directly examining its role and requirements in the scene before us, some general points should be briefly clarified.

Of course, there can be no denying that what was formerly known as the 'industrialization mystique' has weakened considerably.

No doubt the deterioration of its image in the central economies, burdened by the problems brought on by industrialization, by the obsolescence facing some branches of production, and by the challenges posed by the transition to a 'post-industrial' society has contributed to this.

However, a critical appreciation within the region itself has been added to this reflection of outside experience, with even greater impact. Currents of opposing signs and contrary content converge in this.

For some, the adverse judgements on industrialization are due to the inadequacies or failures as regards the social transmission of its results and the creation of job opportunities, its lack of capacity to structure itself internally and establish firm links of complementarity with the other sectors, and the inability to ensure a development less dependent on different external influences.

For others, however, the list of errors includes, *inter alia*, the high costs of production, the lack of competition and excessive protection, the disdain for comparative advantages,

the exaggerated and inefficient State intervention and the failure to consider external transactions.

CEPAL brings to this discussion an attitude which is both *critical* and *positive* and which, without ignoring—as is evident from the documentation—the relevance of many of these criticisms, subordinates them to the historical significance and *raison d'être* of the industrialization process. All in all, we are convinced that if we can today speak of “a different Latin America” compared with that existing decades ago, this is basically due to the structural changes which have taken place, whose axis has been the unfolding of this process.

1. An integral concept of industrialization

As is well known, in the past CEPAL envisaged an industrialization process which went beyond the sectoral context and had the ‘industrial society’ as its horizon, i.e., a historical type of society—in its broadest sense—conditioned by the dynamics of knowledge and the technical and scientific rationale applied primarily to industrial production, which operated as the primary driving force for its modernization-oriented growth and change.

This dynamic role of industrialization implies considerable alterations in the patterns of organization of the community and the State, in the forms of production and consumption, in the structuring of the social classes and estates, in political activity and institutionalization, in the international position of the countries’ societies, and in the basic social personality of individuals.

In brief—as was expressed in one of the most important documents on the subject prepared by CEPAL—it would not be appropriate to interpret the process from the limited standpoint of the increase in the capacity of production and the growing output of manufactures without placing it in the broader perspective of the social and cultural change with which it must necessarily be associated.⁵

⁵CEPAL United Nations, *The Process of Industrial Development in Latin America*, 1966.

2. Industrialization, technical progress and external trade

The 1949 *Economic Survey of Latin America* maintained that in the former scheme of outward-directed growth, technical progress was concentrated in the sectors aimed at producing low-cost foodstuffs and raw materials for the major industrial centres. However, it was argued, “as this progress spread, the surplus of the active population and the natural growth taking place in it were employed in industrial activities, transport and trade, as a logical consequence of the growth of the markets and the specialization and diversification of production. Within this process, the improvement of agricultural and the evolution of industry were therefore two aspects of the same problem of economic development, and like the development of industry, transport and trade, the development of the services required persons who were not needed in primary production, which in turn could not grow without the correlative development of those other activities”. For all these reasons, as another text of this period observed⁶ “industrialization is the growth form imposed by technical progress in the Latin American countries”.

The dynamic breadth and interlinking of the CEPAL approach and the fundamental basis of the phenomenon are thus made clear.

Associated with the above view, a supplementary argument emerges, introducing the relation between the industrialization process and external relations, in which the circumstances which characterized world trade between the great depression and the start of the 1960s are of undoubted importance.

According to this point of view it is argued that the absolute or relative decline of the impulses from external trade—which had imposed and encouraged ‘outward-directed growth’—should be offset by the mobilization of human and material resources for the supply and subsequent growth of the home market. This is, in short, the proposal known as ‘inward-directed growth’.

⁶See Raúl Prebisch, *Problemas teóricos y prácticos del crecimiento económico* (1951). Series Commemorating the Twenty-fifth Anniversary of CEPAL, 1973.

Although we shall come back to this later, it may be noted that this opinion, far from ignoring the role of external trade, recognized its strategic importance, although its priority and function were no longer the same as in the former system.

Aside from the controversies on these relations and the policies adopted in this respect by different countries, we firmly believe that these two main considerations continue to be valid although the specific situations in which they are stated are very different today and render necessary a creative reformulation of the means of tackling them.

In the light of these ideas, and taking into account the changes which have occurred both in the region and in the rest of the world, what are the capital reasons which justify the central role of the industrialization process in what will probably constitute the scene in the 1980s?

3. *Employment opportunities*

It should come as no surprise that we are opening this schematic analysis by looking at the problems and needs of the chief subject of our concern: the people of Latin America and particularly the large sector which has remained completely or substantially marginalized from the results of the development achieved.

For the moment, let us bear in mind that during this decade the region's population will grow by slightly over 100 million persons, to around 455 million in 1990. More than 90% of the new inhabitants will be established in urban nuclei, while only 10 million will be added to the rural contingent. It is estimated that the employed population will increase by 37 million persons, of whom 33 million will correspond to the urban centres.⁷

From a strictly socio-economic point of view these figures raise further unavoidable questions: how are their vital needs to be met? Where will they find jobs which will enable them to produce and have access to the goods and services which are lacking?

In order to approach this subject it should be recalled that towards the end of the last

decade (1977) it was calculated that approximately one-third of all Latin Americans were to be found below the 'poverty line' and a slightly larger percentage was unemployed or employed in exceedingly low-productivity and low-income activities. We should point out, however, that these figures recorded some modest progress compared with the situation at the beginning of the decade, although the absolute volumes of those affected had not changed.⁸

If we concentrate from the start on the decisive question of employment, the research carried out by PREALC provides a panorama of developments in the last three decades (see table 6).

Broadly defined, the industrial sphere (including manufacturing, construction, electricity and transport) employed about 22% of the economically active population in 1950 and 27% in 1980. This involved annual growth rates of 2.7% between 1950 and 1970 and 3.8% between 1970 and 1980. Adding to this the indirect effects on other activities, industrialization affected 35% of the labour force in 1950 and 47% in 1980.⁹ In other words, nearly half of regional employment at the end of last decade was connected with this global process.

These figures are in significant contrast to the rather pessimistic evaluation which has prevailed in this regard, which seems to have been dominated by several main factors.

One is the isolated appraisal of the industrial sector in the strict sense, although even so it increased its share in total employment from 14% to 16% between 1950 and 1980, raised its annual rate of absorption of the labour force from 2.2% between 1950 and 1970 to 3.8% between 1970 and 1980, and in the latter decade offered employment to over 21% of the increase in the economically active population.

This picture is notably altered if the more general and dynamic projection of the process is considered, as we did earlier. However, there is no doubt that the primordial element in the underestimation stems from the fact that it

⁸CEPAL/UNDP, *¿Se puede superar la pobreza?* (E/CEPAL/G.1139), Santiago, Chile, 1980.

⁹Only the backward linkages are considered, so as to avoid duplication in the calculations.

⁷See CELADE, *Boletín demográfico*, Vol. XII, No. 23, Santiago, Chile, January 1979.

Table 6
LATIN AMERICA: ECONOMICALLY ACTIVE POPULATION BY SECTORS OF
ACTIVITY, 1950, 1970, 1980

Sectors	Thousands of persons			Percentages			Growth rates		
	1950 ^a	1970	1980	1950	1970	1980	1950-70	1950-80	1970-80
Total	51 969	78 874	103 094	100.0	100.0	100.0	2.1	2.3	2.7
Agriculture	27 982	33 163	36 110	53.8	42.1	35.0	0.9	0.9	0.9
Mining	672	994	1 098	1.3	1.3	1.1	2.0	1.7	1.0
Industry	7 311	11 338	16 523	14.1	14.4	16.0	2.2	2.8	3.8
Construction	1 861	4 244	6 706	3.6	5.4	6.5	4.2	4.4	4.7
Transport	2 009	3 280	4 220	3.9	4.1	4.1	2.5	2.5	2.6
Electricity	155	300	385	0.3	0.4	0.4	3.4	3.1	2.5
Commerce	4 115	7 949	12 285	7.9	10.1	11.9	3.4	3.7	4.5
Services	7 864	17 516	25 767	15.1	22.2	25.0	4.1	4.0	3.9

Source: Preliminary estimates by PREALC on the basis of national population censuses (adjusted) and surveys (adjusted).
Note: The total includes information from 14 countries which account for around 95% of the economically active population of Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru, Uruguay and Venezuela.

^aIn Peru, Uruguay and Venezuela the data correspond to 1960, since no information is available for 1950.

passes over the capital impact of the growth rates of population, the labour force and the rapid migration towards the urban and metropolitan centres. Each of these elements represents a 'divisor' which notably cuts down the extent and particularly the social appreciation of the progress registered.

Although it is a well-known fact that the evolution of Latin America (except for a very few countries) has been exceptional in all these aspects, they have not always been duly related to the criticisms or dissatisfaction regarding the availability of productive employment or the persistence of urban marginality.

It is therefore useful to consider some primordial facts in this regard.

Firstly, as was observed in a recent document, between 1950 and 1975 the population of Latin America grew more rapidly than that of any other region in the world. In these 25 years it doubled, while the world population increased by slightly under 60% and that of the developed countries by only just over 30%. In addition, the annual rate of growth of the urban population (in cities of more than 20 000 inhabitants) was more than 5%, pushing up its

quota in the total population from 26% to 45% in that period.¹⁰

The contrast of circumstances can be appreciated with greater clarity if the evolution of Latin America is compared with that of the countries of the European Economic Community (EEC) as regards some key variables of the problem in the 1960s, which was a decade of great dynamism and labour immigration in the latter area. As may be seen from table 7, industrial employment in the EEC grew by only 0.5% annually, but even so this rate considerably exceeded the growth of the labour force and may be compared with the rate of increase of the population: 1.2%. In Latin America, however, while employment in industry grew annually by 3.5%, it was accompanied by an increase of 3.1% in the population and 2.9% in the labour force.¹¹

¹⁰CEPAL, *Latin America on the threshold of the 1980s, op. cit.*

¹¹It should be noted that the period 1960-1970 is not specifically considered in table 6 and that the methodology and data used by the two sources (PREALC and ILO) may differ to some extent. At all events, however, the differences are obvious enough to illustrate the situations compared.

Table 7

LATIN AMERICA AND THE EUROPEAN ECONOMIC COMMUNITY: ANNUAL GROWTH RATES OF POPULATION AND EMPLOYMENT (1960-1970)

	Population	Labour force	Industrial employment
Latin America	3.1	2.9	3.5
EEC	1.2	0.2	0.5

Source: ILO, *Yearbook of Labour Statistics*.

These facts, of primordial interest for the matter under consideration, will continue to be of importance in the next few decades—as we have already indicated—despite the small declines anticipated in population and urban growth rates. This aspect should be stressed in order to put the exaggerated or interested expectations which sometimes figure in population control policies in their proper place, although this does not mean denying their great importance and the need for them as long-term guidelines. It should be noted in this regard that this aim is considered today a great deal more objectively than in the past, when contrary prejudices prevailed.

In any case, the above permits it to be confidently reaffirmed that the industrialization process will continue to be decisive for the creation of job opportunities for the population of Latin America.

4. *The industrialization process and social development*

No less solid, in our opinion, is the argument which associates this phenomenon with the priority that should be given to social development, the satisfaction of the community's vital needs and the eradication of poverty.

In this regard, the concern of governments and of the circles which represent the region's opinion has been included and analysed in United Nations studies which have made possible considerable clarification of the nature of this problem and the existing options for efficiently tackling it within a reasonable period of time.¹²

¹²See in particular CEPAL/UNDP, *¿Se puede superar la pobreza?*, *op. cit.*

This is not the place for repeating the main lines of the diagnoses and policies put forward. We shall therefore limit ourselves to certain aspects which have a more direct impact on the question under consideration.

In this regard we have maintained for some time that this is a perfectly possible mission, supported by the progress made in the size and structure of production in the region, although obviously there are notorious differences between the situation in the various countries or in specific sectors or groups. At the global level, and from the standpoint of the necessary transfers and reallocation of incomes, for example, elimination of the basic inadequacies in nutrition, health, education and housing would call for the allocation of between 3.5 and 5.5% of the gross regional product to this objective.¹³

It is, however, obvious that even this minimal and apparently feasible requirement involves difficult and conflictive political, institutional and also strictly economic readjustments.

Outstanding among the last-mentioned—which we are now stressing—are the changes in the levels and structure of the system of production which this top-priority objective requires. In brief, not only is a satisfactory growth rate required, but also that this growth should give rise to a preferential increase in goods and services for basic consumption, while at the same time investments should acquire an adequate size and structure to serve this aim and to absorb the available labour.

These readjustments must obviously take account of the differences existing among the countries of the region, on account of their size,

¹³*Ibid.*

the dimensions of their markets, the resources they possess or their potential for finding a place in international markets.

In any case, this 'real' counterpart of the endeavour to alter income distribution directly or indirectly is a cardinal element for this strategy. It is a well-known fact that the failure to consider these two dimensions has been one of the outstanding causes of the frustration (and accompanying outbreaks of inflation) of the merely redistributive or populist policies.

The memory of these phenomena should warn us against the temptation to seek to make the changes which would have to be introduced into the 'real' structures of production of our countries through policies which, from one standpoint or another, upset the delicate balance or counterpoint which should exist between planning and the market. We also ought to be on our guard against attempts to seek these changes through excessive protectionism. It is also necessary to take into account the case of countries which, because of their dimensions or economic structures, are obliged to pursue external strategies aimed at obtaining through international trade part of the consumer goods required to meet the essential needs of their societies. Lastly, I must not forget to refer to the very important role devolving on the agricultural sector in meeting these needs: a topic to which I shall refer in the third part of this report.

5. Industry as the axis of technological progress

The priority position of the industrialization process also stands out in sharp relief if consideration is given to its role as the main instrument of technological progress. The importance of this facet of the problem—frequently underestimated—requires more careful consideration.

This reveals one of the substantive roles which the sector plays: that of the basic provider of technical knowledge and, at advanced stages, a demanding consumer of this same knowledge. The degree of interaction between the scientific and technical structure and industrial production in fact constitutes a

revealing measure of the degree of economic development.

These considerations of a general nature give rise to other more specific considerations when the situation of the region is examined. There are analyses which reveal the existence of definite asymmetry in the structure of Latin American industry, particularly in the inadequate development of production equipment. Although this structure varies in the different countries, the observation is to some extent valid for all, and doubtless for the region as a whole.

The description we have applied to industrial activity as the bringer of knowledge applies particularly to the manufacture of production goods. There are numerous reasons for this, but here only two are stressed: firstly, that the manufacture of production equipment requires a more complete mastery of the process to which it is applied than that required for its use; and secondly, that the requirements of quality, accuracy and reliability in capital goods are, generally speaking, greater than those with which consumer products must comply.

Being a producer of equipment or not would thus constitute, although not of course the only one, at least a substantive indicator of the degree of industrial development reached. This indicator includes considerations of a qualitative nature which do not appear in the mere appreciation of the volume of manufacturing output.

Naturally, when the Latin American situation is reviewed on a country-by-country basis, we find very different situations. The countries with the largest markets have achieved their own capital goods industries, which are able to cover large percentages of national requirements in many sectors; however, the medium-sized and small countries generally only engage in incipient activities in this field. This difference between the two groups, together with the nature of the production of equipment as an instrument of technological stimulus, calls for some reference, even if only in passing, to the case of the countries with the smallest markets. Should they renounce all pretensions to the manufacture of their own working tools? We do not think so and see at least three possibilities:

(a) Joint action, through formal integration agreements, to establish a market of a sufficient size. Thorough studies and serious political efforts have been made in this regard. Its feasibility has, however, been called in question, not only in regional but also in subregional terms, at least in the short term. But this alone does not refute the fact that integration continues to be a substantive instrument for the development of countries with limited markets.

(b) A careful use of their own markets, even if limited, in order to bring technological progress to the metal manufactures and machinery industry. It must be borne in mind that producer goods are of different degrees of complexity; for example, the pipes or the sluiceways of a hydroelectric power station may be manufactured by factories existing in the majority of the medium-sized and small countries with minor additional investment, provided that the project has taken this possibility into account. The implementation of this effort may train the enterprise in question for tackling other manufactures which possibly have greater requirements and permit it to raise the quality of its normal output.

(c) The supply and maintenance of the equipment required for primary production opens up a third field of activities which, apart from dealing with local demand, may lead to specialization which could be projected into international trade.

6. *The false dilemma between openness to the exterior and industrialization*

Lastly, we should stress the crucial relations between the process of industrialization and the ways of giving the Latin American economies a place in the international context. We can thus link this analysis with the earlier outline of the centre-periphery problem.

In this regard—let us be frank—a formerly dominant criterion has reappeared with regard to a hypothetical alternative between one type of growth based on the mobilization of resources for export and another which stresses its orientation towards satisfying the domestic market. This would therefore be a choice between ‘outward-directed’ growth and ‘inward-

directed’ development, or between import substitution and export production.

This is not the moment to review the theory and the circumstances which have inspired this proposition, but we shall emphatically stress that CEPAL’s thinking and its normative derivations have invariably rejected this false dilemma and on the contrary have supported the indispensable complementarity of trade with the exterior and the use of resources for supplying national markets.

This fusion of objectives is essential, in our opinion, on account of two considerations which we shall describe briefly.

One is that the historical and structural conformation of Latin America, registered in its present and prospective coefficients of openness to the exterior, determines that its development will depend *primordially* on the utilization of the majority of its human and material resources in activities directed at the home market.

As is obvious, this general premise is conditioned by the individual realities of each economy, and the relative importance of the ‘outward-directed’ or ‘inward-directed’ destination of the output generated varies according to these. Without omitting other factors of importance, the significance of external trade in the smaller and medium-sized countries has been and will be greater than in the countries with huge present or potential home markets; and conversely, in the latter the role of the domestic market clearly predominates.¹⁴

On the other hand, a growing and sustained relationship with the exterior is vital for maintaining this ‘inward-directed’ development and for satisfying other essential requirements of global growth. We may briefly recall the following top-priority aspects:

(a) The provision of the imported supplementary supplies which it is materially impossible to produce locally or whose production comes up against manifest obstacles (definitive

¹⁴While the percentage of exports in the GDP achieved in 1980 amounted to nearly 8% in the three largest countries, that of groups of medium-sized and small economies reached 15% and 24% respectively. See CEPAL, *Economic Survey of Latin America*, 1978 (United Nations Publication, Sales No. E. 80.II.G. 1), Part Three.

or temporary) arising out of the size of the national markets, the resources available, technological requirements and other well-known factors;

(b) The existence of primary or manufacturing activities basically intended for the foreign market which must also furnish the bulk of the foreign currency to finance the country's imports;

(c) The additional fact that there are activities—mainly industrial—which can only be carried out efficiently if domestic demand is supplemented with external demand in order to reach adequate levels of productivity and costs, apart from also supplementing supplies of foreign exchange.

Viewing this question from the standpoint of the earlier review of the centre-periphery system and the nature and options regarding the international position of the Latin American economies, the capital significance of the process of diversification of production, the axis of which is the industrial complex, is even more obvious.

Thus, to stress only the primordial aspect of our thesis, it seems illusory to imagine a new pattern of external relations—more dynamic, stable and advantageous for national development—without this process of internal changes which is projected towards the exterior and is based on the incentives and supplies resulting from trade with other economies.

This position is empirically supported by the indisputable fact that the vigorous deployment of world trade in the postwar period was mainly due to the transactions in industrial goods, a phenomenon which will continue to be of importance in the future according to the most authorized forecasts.

In short, therefore, the termination or attenuation of the centre-periphery dichotomy is inconceivable without the internal changes which accompany the global phenomenon of industrialization, and without this assisting in achieving and benefitting from a new form of insertion in the world economy.

7. *The lessons of experience*

This real situation and the prospect of the new circumstances, potentials and restrictions

make a creative reformulation of the strategy of the industrialization process and its national variations a necessity. For this reason we must scrutinize their past, and keep a lookout for their future.

It would be vain to attempt this urgent and difficult task here. We can, however, sum up some requirements which will most certainly have to be taken into account in outlining that strategy, and which are closely interrelated. They are also in keeping with the central objectives of the style of development which has been proposed in the organization's conferences, i.e., one which will ensure the dynamic and regular growth of our economies, greater fairness in the social distribution of their benefits, and a satisfactory level of autonomy *vis-à-vis* outside influences.

The following would be the requisites which we consider to be of top priority for a new cycle of Latin American industrialization:

(a) To ensure the progress and greater selectivity of this process, in contrast with the extensive or indiscriminate spread of earlier efforts. A more in-depth approach to this process implies the search for greater complementarity of the industrial spectrum itself and of industry with the other sectors of production;

(b) To intensify and rationalize the absorption, adjustment and creation of technological progress, giving preference to the activities—such as the manufacture of machinery and equipment—which constitute their centres of learning and diffusion, and to the scientific base of research and development which generates or assimilates it;

(c) To increase substantially the priority assigned to the branches intended to satisfy the essential needs of the population and thus take account of all the elements which may help to raise the level of employment and productivity and the income of the labour force;

(d) to make a prior and realistic evaluation of the crucial links between the industrialization process and the external sector, admitting that the neglect of this in the past constituted the most vulnerable aspect of its continuity and solidity. We must therefore repeat that the dynamics of growth and of industrialization itself require a sustained increase in foreign trade and that this trade in turn will depend to a

decisive extent on the contribution of this process;

(e) To take explicitly into account in the general policy and in the specific initiatives their decisive effect on the environment, urban or metropolitan concentration and spatial disequilibria. This concern, obviously neglected in the past, has acquired singular importance in the present circumstances.

(f) To clarify the guiding norms as regards the ever-controversial question of protectionism or the liberalization of external transactions. The excessive distortions introduced by the use of protectionism long after the events which prompted it in the past have been thoroughly diagnosed. But it is no less obvious that the experiences of radical liberalization also clearly reveal the disadvantages they bring with them. It is therefore necessary to obviate these fluctuations and define both the general criteria and the criteria for specific situations. They should combine the indispensable safeguards for the national economies—justified by the structure and level of their development—with measures aimed at making the most of the benefits and stimuli of a different and carefully studied international division of labour.

Lastly, let us reiterate our long-standing conviction that progress in this process cannot be subordinated—as is sometimes suggested—to another mistaken alternative: that which contrasts the outright pre-eminence of market mechanisms, on the one hand, with the overwhelming omnipresence of the State or of public control on the other.

It is not possible to dwell here on this controversial and topical debate. We shall merely reproduce the essence of what was maintained long ago (in 1961) in that connexion and still remains applicable:

“...reference has been made to the need for conscious and deliberate action to influence the market forces [in other words, in today's terms, to influence the market] and orient them towards attaining certain economic and social goals... However, care should be taken not to draw erroneous conclusions from that argument. The aim is not to suppress the forces in

question—which have enormous growth potential—but to establish through State action the conditions that are essential for ensuring that such potential can be exploited in the interests of economic development.”¹⁵

The specific results of this enunciation of principles—which goes beyond and incorporates the terms of that misleading dilemma—is to be found, as is well known, in our persevering sponsorship of effective planning methods capable of dealing in a rational manner with the various problems outlined earlier.

Despite all the vicissitudes and the constraints affecting Latin American efforts in that connexion, it could hardly be denied that considerable progress has been made in this way, both in the institutional sphere and in that of specific achievements and with regard to the establishment of an extensive and competent corps of technical experts.

We do not claim that these views are new. In fact, they stem from concerns that have always been present in CEPAL's analyses, as can be readily demonstrated. However, it would seem that the time has come to expand on these ideas and to revise them in the light of the changing scenarios and prospects we have before us.

At the same time, we believe that the weight of circumstances and the tasks we have ahead of us have overtaken purely academic or ideological debate on the matter. It will therefore suffice to bear in mind, as an outstanding example, the reality of the energy challenge and of policies for dealing with that challenge—to which I shall return at a later point. Everywhere these realities are making it necessary to adopt an express definition of appropriate ways and means for the short, medium and long term—in other words, to engage in planning. In this process the guiding and executive presence of the State, in conjunction with the market forces and private, national and foreign enterprise, is of great importance.

¹⁵CEPAL, *Desarrollo económico, planeamiento y cooperación internacional*, Series Commemorating the Twenty-fifth Anniversary of CEPAL, Santiago, Chile, 1973.

III

Strategic problems of the new decade

Basically, the changes that are taking place in the world economy have been generated by the trends recorded in the developed economies and by the policies adopted by the OPEC countries. Their impact on the majority of the countries of the periphery has been particularly strong and immediate, owing to the fact that the international economy has become more interdependent; in other words, the trends generated in the more dynamic segments of the system contain mechanisms that act as powerful pulleys transmitting the phenomena in question to the rest of the system.

Among these transmission mechanisms are: inflation in the central countries, which spreads to the periphery through the increase in the prices of capital goods and manufactures, thus reinforcing the inflationary factors already operating there; the recession in the industrialized countries and the resulting reduction in their imports, which are factors that have helped to weaken the trend towards the expansion of international trade recorded prior to 1974, which had become a powerful motor for growth for the developing countries; protectionism, with which the industrialized countries respond when confronted with the recessive trends in question, in order to defend not only their agricultural production but also a growing number of industrial branches, thus limiting the exports by countries on the periphery; the increase in the price of oil, consumption of which the countries of the periphery cannot reduce or substitute in the short term without threatening their economic growth rates, owing precisely to the stages that their development processes have reached; and, lastly, adoption by the periphery of development styles which are fashioned after those of the industrialized centres and which reinforce energy requirements and other inflexible factors that affect their economic and social processes.

Within this context, I should like to place particular emphasis on four areas of concern for the countries of the periphery at the beginning

of this new decade, namely, international trade, international financing, the energy transition, and security with regard to food supplies.

1. *International trade*

With regard to the first of these areas, it should be reiterated that maintenance of, or an increase in, the rate of expansion of the exports of the countries of the periphery is a basic requirement for enabling those countries to attain a satisfactory rate of growth. In the case of Latin America, which maintained a relatively high rate of expansion of its trade in the midst of a highly recessive international situation, this is not a utopian proposition. Of course, the dynamism of the external sector depends, on the one hand, on generation of an ever greater and more diversified flow of exportable products and, on the other hand, on the possibility of having increasing access to international markets. The first of these requirements is linked to the strengthening and expansion of the production structure of the Latin American countries and, more particularly, to the industrialization process: elements to which I have already referred. With regard to access to international markets, this depends basically on the rate of expansion of world trade and the degree of success achieved in the struggle against protectionism, which has made a forceful reappearance in the industrialized countries in recent years.

Unfortunately, the prospects that can be glimpsed on these two fronts at the beginning of the 1980s are not at all promising. It is estimated that in the three-year period 1980-1982 growth in world trade will be little over 4% per annum, compared with a rate of just under 6% during the 1970s and one of approximately 8% in the 1960s.

The Secretariat has been clear and consistent in its efforts to denounce the enormous damage that the protectionism of the centres is causing, not only by slowing the growth of the

countries of the periphery, but also, and especially, by deferring the adjustment and the recovery of the international economy as a whole —with respect to which the growth of the countries of the periphery revealed itself to be a dynamic factor of the greatest importance during the prolonged period of recession that started at the beginning of the past decade. The Secretariat has also consistently stressed the more systematic, insidious and selective nature that the protectionist phenomenon has taken on as —in addition to tariff measures that discriminate against the periphery's exportable products a set of non-tariff measures, such as quotas, countervailing duties, 'voluntary' restrictions and so-called market organization agreements have been adopted, with the same aim of restricting our countries' exports and with even more effective results.

It would, however, be wrong to misinterpret the long-term importance of the resurgence of protectionism in the centres. Until only 15 years or so ago the periphery's concerns were focused on its so-called inability to participate to any significant extent in trade in manufactures —which was the dynamic element in international trade—and its bargaining power was concentrated on obtaining preferential treatment that would enable it to gain access for such goods to the markets of the industrialized countries. The reappearance of protectionism in the latter countries is partly a reaction to the considerable increase in the competitiveness of a growing number of developing countries in the lines of business in question, and partly a manifestation of the crisis through which the industrialized countries are passing. By continuing with protectionism, these countries are only restricting the role that the developing countries could play as a dynamic element of the international system, and they are, at the same time, deferring the adaptation and modernization of their own economies.

Finally, I could not omit a reference to the new circumstances that tend to reinforce one of the theses and proposals most identified with CEPAL thinking; those which stress the importance of regional integration.

Despite its vicissitudes, this objective has lost none of its fundamental *raison d'être*: on

the contrary, it seems to have been reinforced. As a recent report of the Inter-American Development Bank maintains, in the emerging international context "the importance of the integration process for developing countries must be emphasized, not only because it would stimulate their economies by means of reciprocal trade, but also because it would lead them to operate on a larger scale and would improve their economic efficiency".

Evaluating the probable adverse repercussions of the stagnation of the central economies on world trade and the growth of the periphery, Professor A. Lewis (in the address he gave on receiving the Nobel Prize in Economics) stressed the tremendous importance of this path today. After observing that the developing countries possess an important instrument for tackling this problem by boosting trade among them, he stressed the opportunities which have lately opened up in this regard, and the formal and informal means of causing them to materialize. One of his basic opinions merits thought: "If a sufficient number of LDCs reach self-sustaining growth, we are into a new world. For this will mean that instead of trade determining the rate of growth of LDC production, it will be the growth of LDC production that determines LDC trade, and it will be internal forces that will determine the rate of growth of their production".

2. External financing

Two basic facts have characterized Latin America's process of external indebtedness during the past decade. The first was its extremely rapid growth; the second, the radical change in the sources of external credit. These changes have had both positive and negative effects on the region's development. However, before considering the advantages and drawbacks of such changes, it would be appropriate to recall the basic dimensions of this simultaneous process of quantitative expansion of, and qualitative change in, the external debt.

(a) *The expansion of the external debt*

In 1970 the public and officially guaranteed medium and long-term external debt of

Latin America was US\$ 16 billion. Ten years later it had increased almost eightfold and was estimated to be approximately US\$ 125 billion. However, despite its extraordinary size this rise does not fully reflect the increase in Latin America's overall indebtedness abroad. In view of the fact that, particularly in the second half of the past decade, the forms of external credit that expanded the most rapidly were loans granted without official guarantees by private international banks, the region's total external debt is currently much higher than the officially guaranteed debt. In fact, at the end of 1980 it was estimated that the former amounted to approximately US\$ 195 billion. In other words, between 1974—the first year for which there is reliable information on non-guaranteed bank credits—and 1980, Latin America's total gross external debt increased more than threefold, whilst in net terms it rose fourfold (see table 8).

Naturally, this exceptional rise in the nominal level of indebtedness partly reflected the effects of world inflation. That increase should, moreover, also be considered in the light of the relatively rapid growth in the region's total product and the considerable increase in the value of its exports of goods and services which occurred at the same time.

However, even if these factors are taken into account, the increase in debt during the past decade was considerable. Thus, for example, if both the officially guaranteed external debt and the national product are considered in real terms, it may be seen that, after rising from 11% in 1960 to almost 14% in 1970, the ratio between the two rose to almost 28% in 1978. The ratio between the servicing of officially guaranteed external debt and the total value of exports of goods and services followed a similar trend. Thus, between the early 1960s and the mid-1970s, amortization and interest payments consistently absorbed approximately 13.5% of the value of exports; however, subsequently that ratio rose sharply, and in 1978 debt servicing already amounted to 26% of the total value of the goods and services exported.

Whatever the indicator used, then, the conclusion that emerges is the same: during the past decade, and particularly in its second half, the Latin American external debt grew at an exceptionally high and steady rate.

(b) *Changes in the sources of external financing*

As already noted, this unprecedented expansion of the external debt was accompanied by

Table 8

LATIN AMERICA: OVERALL EXTERNAL DEBT^a
(Billions of dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980 ^b
Public and officially guaranteed external debt	16.1	18.3	21.5	27.4	36.6	44.6	57.9	72.5	94.5	111.3	125.0
Non-guaranteed bank debt	—	—	—	—	18.8	25.2	32.6	34.6	39.4	54.3	70.0
Overall gross debt ^c	—	—	—	—	55.9	70.7	92.4	109.0	135.3	167.2	195.0
Gross international reserves ^d	4.3	5.2	8.6	13.0	17.0	17.4	22.4	26.9	33.8	40.8	39.0
Net overall debt	—	—	—	—	38.9	53.3	70.0	82.7	101.5	126.4	156.0

Source: World Bank, *World Debt Tables*, 15 November 1980; Bank for International Settlements, *Annual Report*, June 1980; International Monetary Fund, *International Financial Statistics*, April 1981, and CEPAL estimates.

^aOutstanding debt effectively disbursed.

^bPreliminary estimates subject to revision.

^cIncluding debt with IMF.

^dExcluding gold.

considerable changes in its sources and modalities. Basically, the changes in question were due to the extraordinarily rapid increase in private loans in the past decade, whose growth rate far exceeded that of official credits. Thus, whereas during the period 1960-1970 loans from private sources accounted for an average of only one-third of Latin American external financing, in 1979 they accounted for three-quarters of such financing.

In turn, the chief cause of this sharp rise in the relative share of financing from private sources was the abrupt expansion of loans granted by the international commercial banks, whose importance early in the 1970s, in contrast, was extremely limited. During the five-year period 1966-1970 net financing from such institutions barely amounted to US\$ 300 million annually, an amount equivalent to only one-third of the value of loans granted by of-

ficial bodies and less than half of the value of direct foreign investment during those years. In 1979, however, the relative share of these three components of external financing had changed dramatically. In that year credits provided by the international commercial banks rose to US\$ 17 billion, that is to say, they were six times larger than both the amount of financing from official sources and that from direct investment (see table 9).

(c) *Oil surpluses, recycling and indebtedness*

Naturally, changes as far-reaching as those that have occurred over the past ten years in the amount, composition and terms of Latin America's external debt are not to be explained only by factors relating to the region's internal development, but must also be considered in the light of the profound transformations that have

Table 9

NON-OIL-EXPORTING LATIN AMERICAN COUNTRIES^a:
EXTERNAL FINANCING
(Billions of dollars)

	Annual average				
	1966-1970	1974-1976	1977	1978	1979
I. <i>Use made of external financing (1+2)</i>	2.4	14.3	11.8	18.1	24.0
1. Current account deficit ^b	-2.0	-13.6	-7.9	-10.5	-18.0
2. Changes in reserves	0.4	0.7	3.9	7.6	6.0
II. <i>External financing (3+4+5)</i>	2.5	13.6	12.7	16.3	24.4
3. Direct investment	0.7	2.1	2.3	3.0	3.0
4. Donations	0.1	0.1	0.2	0.2	0.2
5. Nets loans ^c	1.7	11.4	10.2	13.1	21.2
(a) Loans from official sources	0.9	2.0	2.2	2.9	3.0
Multilateral	0.4	0.9	1.2	1.5	1.5
Bilateral	0.5	1.1	1.0	1.4	1.5
(b) Loans from private sources	0.8	9.5	8.0	10.2	18.2
Suppliers	0.4	0.5	1.2	2.2	2.0
Commercial banks	0.3	8.0	4.7	5.8	17.0
Bonds	-	0.3	2.0	2.2	2.0
Unallocated balances	0.1	0.7	0.1	-	-2.9

Source: International Monetary Fund, *Balance of Payments Yearbook*; World Bank, *World Debt Tables*, November 1980; Bank for International Settlements, *Annual Report*, June 1979 and *Supplements*, and CEPAL estimates.

^aIncluding Mexico and Peru.

^bExcluding official donations.

^cIncluding long, medium and short-term compensatory and non-compensatory loans.

taken place at the same time on the international economic scene.

When looking at the situation from this point of view, it is necessary first of all to recall two well-known but fundamental facts. The first of these is that the rapid and massive increase that took place in Latin America's external debt during the past decade was both a cause and a consequence of the high current account deficits recorded simultaneously in the region's balance of payments.

The second fact is that these negative balances—which reached a total of US\$ 122 billion in the period 1970-1980—were particularly from 1974 onwards, the counterpart of a proportion of the financial surpluses accumulated during that period by a number of the chief petroleum-exporting countries. Since these countries, on the one hand, had at their disposal abundant financial resources from their sales of hydrocarbons and, on the other hand, were not in a position to use these resources entirely within their own countries, owing both to structural factors and to circumstances relating to current economic conditions, they deposited a high proportion of their surpluses with private international banks and financial institutions. In turn, these banks and institutions found that their opportunities to expand their credits significantly in the industrialized countries were restricted, initially owing to the recession that those countries entered in the middle of the 1970s and subsequently owing to their slow and uneven recovery.

In these circumstances it was naturally attractive for the international commercial banks to channel a high proportion of their new and much more abundant financial resources to the relatively more advanced economies of the Third World, among them a good number of Latin American economies.

In turn, the presence of this ready supply of funds from the international commercial banks coincided with the need for most Latin American economies rapidly to secure a greater volume of external resources in order to be able to meet the increased cost of their imports caused by the considerable rises in the international price of petroleum and by the acceleration of inflation in the industrialized countries.

Thus, the chief—although certainly not the only—cause of the exceptional growth of, and the market change in the composition of, Latin America's overall external debt was the unusual set of circumstances prevailing on the world economic scene throughout the past decade, and particularly following the first major rise in the international price of hydrocarbons. On the one hand, these circumstances multiplied many times the financial surpluses of the petroleum-exporting countries, and on the other hand they also considerably increased the requirements for external resources of the majority of the Latin American economies. These circumstances also increased the funds at the disposal of the international commercial banks, which could thus play the role of financial intermediary that was indispensable for transferring the surpluses accumulated by the petroleum economies to countries whose current account deficits had risen sharply as a result of the impact of the deterioration in their terms of trade and the stagflation prevailing in the industrialized countries.

(d) *Advantages and limitations of the new external indebtedness*

As pointed out at the beginning, the considerable increase in Latin America's external debt over the past ten years brought both benefits and constraints for Latin American development.

Among the benefits, it is necessary to stress, firstly, the obvious fact that it was basically with the aid of the new, large-scale credits that the region could finance its high balance-of-payments current account deficits during the period in question. To put it another way, higher indebtedness was the chief mechanism for effecting the transfer of external savings called for, by definition, by any current account deficit.

The ready availability of credit from the private international banks was of particularly decisive importance in the petroleum-importing Latin American countries. In fact, when they were faced with a sharp increase in the cost of their imports owing to the rise in the international price of hydrocarbons and the acceleration of inflationary processes in the

industrialized countries, many such Latin American countries managed, by taking out new loans, to carry out more gradually the inevitable and difficult adjustment called for by the sharp deterioration in their terms of trade.

Moreover, it must also be recognized that, at least until the middle of the past decade, the actual cost of the new debt was lower, since the nominal rates of interest charged did not adequately anticipate the increase in the rate of international inflation.

Lastly, attention should be drawn to two favourable characteristics that were general features of financing from private sources.

The first such characteristic was the rapidity with which the financing in question could be obtained: a particularly important feature in view of the pressing requirements resulting from the sharp changes that occurred in the world economy, and in marked contrast to the long periods of time that were often required in order to obtain approval and payment of loans granted by official financing bodies.

The second advantage of financing through private banks was its flexibility. Unlike credits granted by suppliers or by a number of governmental financing agencies, loans provided by the international commercial banks had 'no strings attached' and did not set restrictions with regard to the markets where they might be used. This flexibility was also apparent in the fact that such banks exercised virtually no control over the manner and sectors in which the borrowers spent the funds obtained. In particular—barring exceptional cases—governments (which were often the recipients of such loans) could conduct their economic policy independently, without having to submit decisive aspects of such policy for prior approval of periodic monitoring by the bodies supplying the funds.

However, the steady growth in external debt and the increasingly larger share of such debt accounted for by credits from international commercial banks also entailed elements that were unfavourable to the region's development.

Thus, such financing was obtained at interest rates considerably higher than those

charged by official bilateral or multilateral credit agencies, and this ultimately raised the real cost of the debt. This cost also rose as the practice of setting a variable interest rate that was adjusted twice-yearly to take into account fluctuations in the LIBOR rate became more widespread in financial operations carried out by private international banks. Since, as the experience of the past year showed clearly, fluctuations in the rate can reach very high levels, and since the new rates apply not only to new credits but also to loans taken out in the past, the practice in question gives rise to a considerable element of uncertainty with regard to the level that debt servicing may reach in a given period. Moreover, as the base rate progressively accurately incorporates anticipated inflation, the possibility of the real interest rates charged on loans falling to very low levels, or even becoming negative, becomes less likely.

A third adverse effect of the growing relative importance of private bank loans within overall external financing has been the reduction in the average length of time for repayment. The imbalance between the periods of time required for adequate financing of development programmes and investment projects—which often have long gestation periods—and the rather shorter periods of time that are characteristic of most loans granted by the international commercial banks has thus become more pronounced. This discrepancy has, in turn, led to the need for constant rescheduling of loans already obtained, while the reduction of the average periods of time for repayment of debts has resulted in an additional debt-servicing burden.

Lastly, the predominance of private sources of credit in the region's external financing is disadvantageous in that it encourages use of criteria that are focused on private profitability, rather than social criteria, for the utilization of funds. As is well known, these two types of criteria can diverge considerably, particularly in countries that are endeavouring to implement new development strategies aimed at benefitting the poorer social sectors previously marginalized from traditional economic growth.

(e) *The need to seek new forms of international financing*

The foregoing makes clear how urgent it is to seek new forms of international financing that make it possible to overcome, or at least to reduce, the current disadvantages of such financing.

As we have already seen, following the first wave of increases in oil prices the international banking system carried out the process of recycling financial surpluses from the petroleum countries to the deficit countries fairly effectively. However, in view of the increase in the imbalances in the developing countries' external accounts and the steady and rapid increase in their external debt, it is reasonable to ask how likely it is that the institutions that make up the system in question will continue to play the role they have fulfilled so far.

From certain points of view the prospects do not look particularly bad. On average, the private international banks' capital ratios do not appear to be imposing serious constraints on their loan operations, and the distribution of such operations between the industrialized countries and the developing countries will continue to depend on the relative profitability of granting loans to one or the other category of countries. Moreover, the volume of loans granted to the non-oil-exporting developing countries, as a proportion of the banks' gross assets held abroad, has remained at approximately 17% throughout the past decade. Lastly, in 1979 the outstanding bank debt of this group of countries (around US\$ 190 billion) represented only 4% to 5% of the banks' total assets.

However, the current system is not free of problems. On the one hand, a number of banks may be reaching certain technical limits in their relations with some countries. On the other hand, the level of the credits could exceed the debt-servicing capacity of a number of developing countries. Doubts—that should be given due consideration—are also often voiced with regard to the more or less effective use and final destination of the credits and their possible contribution to the promotion of ex-

cessive consumption instead of strengthening the investment process.

In our view, tackling these problems will call for both a co-ordinated set of domestic macroeconomic policies and external financing facilities that are in keeping with the dimensions of the problem that the developing countries must face. It should be pointed out, in this connexion, that a reduction in commercial financing is not the most appropriate way of solving the problems just mentioned either from the point of view of the borrowing countries—whose development programmes can be seriously affected by such measures—or from the point of view of the economies of the industrialized countries—which would be faced with a reduction in the dynamism of markets in the developing countries. Hence the urgent need to seek a more stable framework for the transactions in question and, above all, to strengthen the role of public international financial institutions, particularly the International Monetary Fund, the World Bank and the regional banks.

It is a question of giving these institutions a more active role in the recycling of funds so that they may supplement the role played by the commercial banks. The scale of the deficit countries' financial requirements is such that, if effective adjustment policies are to be proposed, the international financial agencies will have to be in a position to provide a considerably greater volume of resources than they have supplied in the past. They will also have to adapt the terms of their financing to the longer periods of adjustment required by the deficit countries. Furthermore, these processes of adjustment cannot depend exclusively on the implementation of monetary and financial policies; they must be aimed at increasing the supply of resources and at further expanding the deficit countries' production base, and they must form part of a longer-term strategy designed to promote domestic saving, investment and growth.

Of course, if the agencies in question are to step up their resources considerably, they will not only have to obtain a greater volume of loans from the governments of countries with surpluses or on the international financial markets; they will also have to devise new in-

stitutional machinery to facilitate their preparation in the process of recycling the oil surpluses.

3. *The energy transition*

The third of these major long-term concerns of the countries of the periphery is energy. We have pointed out on various occasions that the type of energy that mankind has chosen to use in recent decades has largely determined the development style of all the countries of the world. We have also pointed out that the so-called 'energy crisis' prevailing since 1973 is not a transitory phenomenon, but a process that, on the one hand, marks the end of a stage in which growth was based on a high level of consumption of plentiful and cheap energy, especially petroleum, and, on the other hand, the beginning of a new era in which economic growth will be determined by the dual necessity of reviewing the development styles that have prevailed until now, with a view to reducing energy consumption, and promoting development of new energy resources.

It is important to consider this situation in all its dimensions, and not only in terms of its impact on the balance of payments of the petroleum-importing countries. Thus, firstly, we are facing a *technical problem*, since in the long term the crisis raises the problem of deciding what technological options mankind has in dealing with the possible exhaustion of a source of energy that has until now been of fundamental importance in the energy balance. Secondly, we are facing an *economic problem*, because the viability of these technological options will depend on the cost of the alternative sources of energy, and because, in general, the cost of new sources of energy that could be used in the future will be much higher than that of the traditional sources of energy upon which mankind has based its development in the course of recent decades. Lastly, we are facing a *political problem*, since underlying the crisis is the fact that for the first time the developing world has organized itself in order to obtain the upgrading of the value of one of its basic resources, determining that, also for the first time, North-South relations shall be considered in terms of interdependence, rather than dependence.

However, of the many aspects of the energy crisis, perhaps the most important is the uncertainty that this situation has created at the international level. If this uncertainty is to be reduced, an effort must be made to define those elements of the problem that are relatively foreseeable.

To start with the production of hydrocarbons is approaching limits that could mean that by the end of this century we shall be confronted with serious imbalances in supply and demand, with the danger of recurring periods of oil scarcity and growing vulnerability of the international system with regard to the emergence of possible conflicts.

Secondly, throughout this period oil prices will continue to rise until they reach levels at which it would be profitable to exploit alternative and currently more costly sources of energy.

Thirdly, the phenomenon in question will continue to have a major financial impact. On the one hand, the increase in energy prices will continue to be a heavy financial burden for consumer countries. On the other hand, to the extent that energy prices rise faster than world inflation, the financial surpluses of the petroleum-exporting countries will continue to be an everyday phenomenon. Both situations mean that the international financial markets will, in general, maintain the volumes and levels of dynamism they reached in the past decade and that the challenge of facilitating redistribution of the surpluses in question will remain.

Fourthly, higher energy prices will give rise to conservationist policies, which will, however, not solve the fundamental problems and whose results can only be assessed in the long term. Moreover, the margins within which the developing countries can reduce their energy consumption without jeopardizing their economic growth are much narrower than the margins affecting the industrialized world.

Fifthly, the need to put into production hydrocarbon deposits for which extraction costs are higher than for those that have been exploited so far and to incorporate alternative sources of energy will call for extraordinary growth in the investments allocated to the development of this type of resources. The

investment required in order to incorporate the new technologies associated with such alternative sources of energy will also be considerable.

Of course, these challenges will be a much harder blow to the oil-consuming developing countries, which have only a limited ability to increase their external revenue by expanding their export trade and whose consumption of energy per unit of the product, as already pointed out, is much more inelastic than in the case of the industrialized countries, owing, precisely, to the stages reached in their respective development processes.

It is appropriate to recall, in this connexion, that the value of the oil imported by the countries of the periphery increased almost tenfold between 1970 and 1980, rising from a little over US\$ 5 billion to approximately US\$ 50 billion, and it is expected that the value of such imports will more than double again, in real terms, by the end of the current decade. Furthermore, these countries will have to allocate a growing proportion of their investment to the energy sector, with a view to reducing their dependence on imported energy. On average, between 1966 and 1975 these countries invested approximately US\$ 12 billion per year (in 1980 dollars) in energy production and transformation, a figure that represents approximately 5% of their total investment. However, it is estimated that in the periods 1981-1985 and 1986-1990 these averages will reach US\$ 54 billion and US\$ 82 billion, respectively. This will oblige the countries in question to revise their short and long-term investment plans, both in order to meet the greater cost of importing energy each year and in order to undertake the investment relating to the expansion of their domestic production of energy.

The need to reconcile the allocation of a greater volume of financial resources to this sector and the implementation of policies to rationalize energy consumption with the task of achieving an acceptable rate of development faces these countries with tricky problems in the field of economic policy. Reconciling these conflicting factors will also depend, and to a very fundamental extent, on attitudes adopted in the sphere of international co-operation.

All these questions are of great relevance

in Latin America. Although the region's energy consumption is no more than 4% of world consumption, its economic growth is closely linked with increasing energy availability, since energy use is concentrated in the productive sectors and not in the area of private consumption, which means that there is little possibility of reducing consumption without jeopardizing economic activity. Moreover, unlike other regions of the world, replacement of conventional sources of energy has been limited in Latin America, where petroleum still accounts for 70% of total energy consumption, compared with 45% in the rest of the world. Furthermore, in most of the countries of the region consumption of petroleum has increased more rapidly than that of other sources of energy. Finally, for the oil-deficit Latin American countries oil imports represent a heavy financial burden, equivalent to 3% of their GDP and 26% of the total volume of imports of goods.

Looking into the future, it may be expected that petroleum will continue to be the predominant source of energy for Latin America, despite the fact that proven oil reserves represent no more than 16% of the region's total energy reserves and are heavily concentrated in two countries—which means that it is necessary considerably to step up efforts relating to exploration for new deposits. In many countries of the region the potential for hydroelectric power is greater than that of the oil reserves, but exploitation of this abundant renewable resource has as yet been very limited. The size of the coal reserves has not been determined with exactitude, but they are estimated as being more than three times the size of the total oil reserves, although their utilization would call for technologies permitting use of the low-energy-content coal existing in the region and, at the same time, minimizing the environmental impact of this fuel. Latin America has other potentially important energy resources, including uranium, heavy oils and bituminous shales and, in particular, the potential to be derived from biomass, which in some countries is expected to make a considerable contribution to the region's energy supply in the future.

Development of these possibilities will

call for substantial investment. The total investment in petroleum, natural gas, coal, alcohol and electricity that the region will have to make in the period 1980-1990 has been estimated at between US\$ 240 billion and US\$ 280 billion, depending on the hypothesis selected for the economic growth rate. These figures represent an average volume of annual investment of between US\$ 22 billion and US\$ 26 billion in the course of the period in question, of which over half would represent expenditure in foreign currency.

This investment effort calls for very large amounts of external resources, in addition to the heavy payments for oil imports anticipated for the current decade. It should be taken into account that by about 1990 such payments will represent between 6% and 7% of the GDP of the oil-importing Latin American countries, compared with 3% at the end of the past decade, even if regional energy production expands rapidly. Any reduction in the planned levels of investment for this sector would give rise to an appreciable increase in oil imports, with the resulting impact on the balance of payments of the importing countries, while at the same time limiting their opportunities for economic growth.

This complex panorama lends a disquieting note to the question as to what is to be done. We believe that the answer to that question lies in a combination of efforts at the national, regional and international levels.

It emerges clearly from the considerations already mentioned that it is necessary for the countries of the region to continue to improve the policies tried out in recent years with a view to dealing with the various aspects of the energy crisis. Firstly, with regard to their immediate external payments problems; secondly, as regards the introduction of strict policies to rationalize energy use; thirdly, in the development of energy resources, with emphasis on the incorporation of alternative sources of energy, and fourthly in the forecasting of requirements that will have to be met and changes that will have to be made in national investment plans in order to tackle the objectives in question.

Moreover, when considering these policies it is necessary to bear in mind the funda-

mental disparities to be observed in Latin America as regards the impact that the energy crisis has from country to country. These same disparities give rise to the need to start energetic regional co-operation programmes in this field. The report submitted by the CEPAL Secretariat at the current session suggests a number of courses of action in this connexion.¹⁶ Among these courses are: the possibility of domestic enterprises pooling their efforts to conduct operations relating to prospection for, and exploitation of, new sources of hydrocarbons; harmonization of the external negotiating policies of the national petroleum companies with a view to increasing their weight in relation to third companies, including the possibility of conducting joint action in the field of fuel transport; and pooling of financial and technical resources for the construction of modern refineries.

When these types of measures are being considered, regional co-operation in the field of oil supplies should not be relegated to a position of secondary importance; the programme initiated with the participation of Mexico and Venezuela to facilitate the provision of hydrocarbons to the Central American and Caribbean countries is both an example and a promising precedent in the field in question.

Development of alternative sources of energy requiring the use of new technological experience is another favourable field in which regional co-operation programmes could be organized. The prospects for this are reinforced by the fact that considerable progress has been made in laying the technical, political and legal foundations for the development of co-operation programmes within the framework of the Latin American Energy Organization (OLADE), with direct participation on the part of the governments concerned.

However, the magnitude of the challenges raised by the energy problem and the extent to which solution of these problems calls for co-operation between producing and consuming countries—both developed and developing—make it necessary also to look for these solu-

¹⁶See *Latin American development in the 1980s*, E/CEPAL/G. 1150, February 1981 (mimeographed).

tions through international co-operation. Implementation of energy conservation policies on the part of the industrialized countries would enable the Third World countries to incorporate more rational styles of energy consumption into their development processes; such policies would, moreover, make it possible to save time and facilitate the transition to a new era based on the use of other sources of energy. With regard to the world supply of such resources, it is in the common interest of mankind that the vast unexploited potential that the developing countries have in this field, both as regards conventional sources and as regards new and renewable sources of energy, should gradually be used. The fact that there is a powerful shared interest in the field of energy provides a sound and promising basis for international co-operation. If this hope is to materialize, it is above all necessary to understand that lack of agreement in this field will lead to economic chaos and, what is even worse, most probably to political conflict. Secondly, the very existence of this shared interest should induce the international community to accept the developing countries' argument that it is not possible to conduct negotiations on the question of energy separately from other questions affecting their economic relations with the industrialized countries. Lastly, it must be recognized that international co-operation will only be productive if it is acknowledged that there are responsibilities which, while they are uncumbent on the entire international community, are even more incumbent on the industrialized countries. Among these responsibilities is, above all, the need to find collective solutions to guarantee the oil supplies of the various groups of countries. These responsibilities also include the handling of the balance-of-payments problems of the consumer countries (particularly the developing countries) and the mobilization of the considerable volume of resources required for the investment that must be made in energy. In this connexion, it should be borne in mind that, according to the declaration made by the Vienna Conference, technological progress is the common heritage of all mankind: a concept whose most urgent applications are precisely in the energy sector.

4. *Food security*

The last problem that I wish to refer to concerns food security. According to FAO figures, 15% of the Latin American population—approximately 50 million people—suffer from malnutrition, an assessment that may be considered conservative, if account is taken of the fact that, according to CEPAL's estimates, 19% of that population—approximately 63 million people—live in absolute poverty. The fact that the phenomenon of malnutrition is so widespread in Latin America is paradoxical, however, if the progress achieved in understanding the causes and magnitude of the food problem is taken into account.

In general, food security relates to aggregate world food availability, on which depends the possibility of implementing emergency measures, through the establishment of appropriate minimum reserves, for the benefit of countries passing through critical situations. We believe that this concept should also cover, at the national level, measures to ensure that all members of the community have regular access to the food required in order to satisfy their basic needs and to develop their potential.

Following the World Food Conference, concern with regard to such problems has grown and efforts to study them from various viewpoints have been redoubled. Such efforts have covered both nutritional questions proper and questions relating to food production and food resources. This has, in turn, led to the preparation of a wide variety of analyses and policies in this field, corresponding partly to the variety of approaches already mentioned and partly to the need to tackle at least some of the most serious aspects of the problem.

Moreover, the disparities in the economic strategies adopted by the various countries of the region have led in some of them to high priority being accorded to achieving a greater degree of self-sufficiency with regard to food, for reasons relating both to national security and specifically to food, whereas in other countries the greater commercial and financial openness of their economies has resulted in an increase in the imported component of their food supply.

It may be said, without going into the ad-

vantages and disadvantages of these two options, that it is unquestionable that the extent to which the two aims of achieving a greater degree of food self-sufficiency and acquiring cheap food through international trade should be combined is a basic problem that must be solved in the development strategies of the Latin American countries.

An integrative approach has recently emerged in Mexico which makes it possible to emphasize not only the most important components of the food system, but also the chief interrelationships among them. The study conducted within the context of what is known as the Mexican Food System on the dynamic links between food production, importation, transport, distribution, allocation and consumption has led to important political decisions and to the adoption of simultaneous action in a greater number of areas with a view to promoting steady improvement in the nutritional status of the poorest urban and rural sectors.

It should also be borne in mind that current problems in Latin America relating to food security have two basic causes: instability in international trade in agricultural products, and, despite the progress made, the continuing inadequacy of both the modern and the traditional or peasant segments of the agricultural sector in many countries of the region. With regard to the first cause just mentioned, the well-known sharp fluctuations on international food markets should be borne in mind. For example, the 1973-1974 crisis on international food markets was the result of the convergence at that time of a number of factors, including the adverse climatic conditions that affected some of the principal production areas, the unprecedented purchases made by the Soviet Union, the considerable increases in the prices of petroleum and petroleum products, and the changes in the grain reserve policies of the United States and Canada.

Among the chief consequences of that crisis were a reduction in the tendency passively to accept growing external food dependence, and a trend towards more fundamental and careful analysis of how world supply networks operate. The latter led, in turn, to a more sceptical attitude towards the reliability of imports

as a source of supply to supplement domestic production of basic foods.

In part, these new attitudes are based on the realization that in addition to cyclical phenomena—which have such a great impact on the volume of food resources available at any given time—there is a phenomenon of a structural nature that is decisive in determining how the world market operates and is partly responsible for the fact that a couple of years of low production in the chief exporting countries produce severe shortages on the international market. We refer to the fact that both world supply and demand for cereals depend, apart from climatic variations, on the policies pursued by an extremely small number of developed countries. In addition to this, there is the fact that, if the foreseeable gap between supply and the demand of the importing countries is to be closed, the exporting countries will have to increase their production by at least 4% per year, whereas their historic rate of growth has been only 2.5% per year.

The adverse consequences that this discrepancy will have for prices are abundantly clear, particularly in the context in which the various formulas for multilateral regulation of food prices and stocks have not gained the international community's endorsement.

However, even if it were possible to have available, through importation, the volume of supplementary food required in order to meet domestic needs, provision of access to such imported products for the population groups whose food security is most at risk presents a series of problems that are extremely difficult to solve. This is why many Latin American countries are in the process of preparing strategies aimed at achieving a greater degree of food self-sufficiency as a means of achieving a comprehensive solution to the problem in question and reducing the domestic impact of the sharp fluctuations that occur periodically on world food markets.

In preparing such strategies, careful consideration should also be given to the fact that in a number of Latin American countries agriculture is assuming an important role as a source of liquid fuels, and the implications this new role could have for the food supply should also be considered. Utilization of agri-

culture simultaneously to produce food and energy crops raises questions that are as yet unanswered and gives rise to options that still have to be reconciled regarding allocation of agricultural resources, the make-up of the output in question, the variations that could occur in the relative prices of food, the technological innovations required, the length of time needed in order to produce liquid fuels commercially, and possible reductions in food production.

These are therefore complex and difficult options, whose relative merits may differ greatly in the various countries of the region.

At all events, at least two alternative ways of achieving food security in the context of a high level of self-sufficiency can be proposed: one based on the production sector composed of commercial agricultural enterprises and the other based on the broad peasant sector. As might be expected, these options have very different implications.

In the first case, the various economic policy measures should be aimed at ensuring competitive rates of return on the cultivation of basic cereals and other essential foods, through mechanisms that are so well known it is unnecessary to describe them here. The tools that can be used if it is desired to prevent these higher rates of return from affecting the prices paid by the urban consumer for the products in question are also extremely well known.

In view of the relative dynamism that the modern sector has shown, and continues to show, in responding to the stimuli of effective demand, the desirable level of self-sufficiency could be reached in a relatively short period of time. However, a number of the problems arising from the type of modernization adopted by countries that have taken this path would remain, particularly the inadequate share that the peasantry has in the benefits of a more modern society, with the consequent implications for the peasantry's ability to acquire essential goods, and the increasing use of techniques that call for large-scale consumption of liquid fossil fuels.

In contrast, the strengthening of peasant agriculture represents an enormous challenge consisting of promoting a type of modernization that incorporates and increases the ef-

ficiency of a great mass of small farmers who have considerable production potential.

It is obvious that this path calls for more complex action and longer gestation periods—sometimes considerably longer—particularly when fragmentation and decomposition processes have affected a substantial portion of peasant agriculture.

Implementation of this strategy also depends on the characteristics of the peasant units, and this is worth emphasizing. Firstly, such units can upgrade—in other words, employ for socially productive purposes—resources that are marginal for or simply ignored by commercial agriculture: relatively unproductive tracts of land, redundant labour, and low-cost, although also extremely low-productivity, means of production. Secondly, the energy inputs that peasant agriculture requires in order to operate are considerably lower than those required either directly or indirectly by commercial agriculture. Lastly, the level of intensification that can potentially be attained with regard to the use of labour is higher in peasant units than in commercial agriculture and results—use of other resources being equal—in generation of a greater product per employable person, even though the product per person effectively employed is actually lower, which is socially less important.

The fact that this potential of peasant agriculture does not materialize—or does so inadequately—is due to the weak links between such agriculture and the rest of the economy and society in many countries. These links will therefore have to be strengthened substantially, if this option is to be viable.

However, it is more likely that in practice individual countries will in one way or another promote combinations of the two options in question and that they will seek to develop agriculture through simultaneous progress in peasant and commercial agriculture. Naturally, the extent to which each type of agriculture participates in, and contributes to, the overall development of agriculture will vary from country to country, according to the size and structure of each of its components and also according to the orientation of its national development strategy.

IV

Final observations

In the preceding sections, I have tried to show some of the main traits which characterize the beginning of this decade.

We have seen that in the international sphere, the present economic situation is difficult and uncertain and that loss of confidence is widespread. In these circumstances, protectionism has tended to re-emerge in some of the industrialized economies and in a few of them there is a tendency for economic policy to be inward-looking instead of trying to overcome the current economic problems by effecting a more comprehensive and permanent reorganization of the international economy, in which the countries of the periphery, and the Latin American countries in particular, should play a greater role than in the past.

We do not believe that this 'temptation to remain aloof' is the best way to deal with the pressing problems we all now face. In particular, we think that a reaction of this kind would be frustrating for the countries of Latin America, many of which have for some time been making enormous efforts to expand and diversify their exports and to open their economies up to international competition. If the response of the industrialized countries to these efforts were to increase tariff and quasi-tariff barriers to exports from the periphery and especially to the manufactures which are now being produced there on a competitive basis, the result would not only be harmful for the developing countries but in the last analysis would also obstruct the redeployment which must take place in the industrialized countries themselves if they are to regain a firm footing on the path to economic growth.

At the regional level, Latin America is embarking on the new decade with a wider and more diversified production base and with richer and more varied experience of economic policy, but it also has unresolved problems of distribution and social inadequacies which must be surmounted as a matter of urgency. This task is, moreover, more pressing today than before because, as we have already pointed

out, the region now has, at least from a purely economic point of view, greater capacity to deal with such problems than it had before.

While it is true that the unfavourable international economic situation which now prevails puts serious hindrances in the way of this basic task, our forecast of the outcome is far from being pessimistic or catastrophic. In this sense, the way in which Latin America has tackled the energy crisis is significant, in that it reacted much more effectively to the problems caused by the crisis than had been assumed in the first analyses of the matter. Of course, its behaviour was to some extent facilitated by the increased external debt, which made it possible to effect a smoother and more gradual adjustment. But at the same time there can be no doubt that the region's greater ability to ward off the onslaughts of the external conjuncture also played a decisive role in this connexion.

Thus, it is our heartfelt and firm conviction that it is our internal efforts which provide and must continue to provide the foundation on which our progress is built, and that it would be both mistaken and futile of us to think that all our problems spring from the adverse turn in the international scenario.

Nevertheless, it would be absurd to ignore the fact that these upheavals have also had a decisive impact. In this connexion, we do not doubt that if the international community as a whole and the industrialized countries in particular made a genuine and persistent effort to change the present international division of labour and to establish a new and more equitable international economic order, the region would not only be able to overcome its present economic problems at a much lower social cost but a contribution would be made to the dynamism and stability of the whole international economy.

Even with an improvement in the relevant external factors, however, if the region wishes to achieve more dynamic and equitable development in the course of this decade its task will not be easy, since in all our countries economic pol-

icy must cope with complex and difficult circumstances. It would, of course, be vain on this occasion to try to cover the whole vast range of these problems since, as everybody knows, the variety of national situations and the diversity of the region are extreme. Nevertheless, there are common factors of some degree of relevance in the majority of our countries, to which we would like to draw attention.

The first of these is the need for national economic policies to try to reconcile economic and social efficiency. In this connexion, the experience of the past has amply demonstrated both the imperative need for simultaneous progress in these two fields and the dangers of trying to advance rapidly in one of them while paying too little heed to the other.

Latin America must view economic efficiency with the urgency required by the difficult regional and world circumstances which now prevail. No country can overlook the imperative need for appropriate allocation and utilization of its human and productive resources and for the full development of its productive capacity.

But it is not enough to ensure the efficient allocation and use of economic resources. It is no less vital that they should also be oriented in such a way as to satisfy the most pressing social needs. It follows that in the region progress along the path of economic efficiency must be accompanied by progress in the field of social efficiency.

Both of these are, in our view, essential requirements. Thus, a policy which favoured social efficiency alone, without taking economic efficiency into account, might degenerate into distribution arrangements of a populist nature, which would not only fail to alter the deep causes of inequality and social deficiencies but would be transitory in their impact and easily overturned. In the same way, a policy which placed maximum emphasis on economic efficiency without taking the social consequences of growth into account might cause tensions and frustrations to mount so that in time the effectiveness and permanence of the economic model itself would be placed in jeopardy.

In short, then, the reconciliation of economic growth and the efficient use of resources on the one hand and an equitable distribution of the benefits of that growth on the other is one

of the most complex but at the same time most vital tasks which the economic policy of our countries must tackle.

A second basic field of action of economic policy is the modernization of the principal economic agents operating in the region, i.e., the State and private enterprise.

In the first place, this task of modernization is essential in order to achieve that reconciliation of economic and social efficiency to which we referred previously. However, it also has another goal and is founded on another equally urgent principle: it must bring the region up to the level of the notable transformations which have been initiated and will continue to be made in the world at large, especially in the fields of technology and energy.

We are faced by a process of profound and rapid change in the technological sphere which has manifold courses and effects and which is beginning to make itself felt in a wide variety of ways. In this connexion we have only to think of the changes which will be brought about by the widespread use of microchips and the 'robotization' of some industrial activities.

Latin American private enterprise will have to face up to the effects of this very rapid process of technological change, and it is vital that it should make a vigorous and constant effort to modernize its forms of organization and methods of production.

It is not only private enterprise that must be modernized, however. No less important is the modernization of the State, which must bring its means and instruments of action up to date so as to meet as best it can the essential strategic objectives of ensuring a form of development that is at once dynamic, fair and autonomous.

In this regard it is well to recall once more that an increase in the size of the State is not necessarily synonymous with the efficiency of its action. Without failing to recognize the different role devolving on the public sector in each country—an aspect which falls within the exclusive field of decisions relating to the economic model which each country has decided or may decide to adopt—it is necessary to insist that in a mixed-economy régime, such as that prevailing in the majority of the countries of the region, the public sector must seek the most

efficient forms of attaining its objectives and of ensuring that they will foster and not weaken the dynamism of private initiative. This is all the more necessary if account is taken of the market's own limitations in solving some of the most pressing social problems, in the solution of which State action is absolutely vital.

Lastly, the third common factor which must be considered in some form by all national policies is that of integral development.

The United Nations, in its definition of integral development and in the International Development Strategy, and CEPAL, in its appraisals of the latter throughout the past decade, have laid particular stress on the need to view economic development in a broad social perspective. It would be impossible to conceive of a growth effort which was not in the last instance directed at achieving social ends which will permit men to realize themselves to the full spiritually and materially. This is why one of the main queries existing at this moment of deep-seated changes and notorious and generalized

uncertainty prompts us to ask ourselves once again concerning the ultimate objectives of the society we are aspiring to build up and the role of the average Latin America in it.

In our opinion, despite the upheavals and confusion which characterize the times we live in, these objectives continue to be the same as those which this institution has recommended since the beginning, i.e., the achievement of a development which, at the same time as it creates more goods and services in the material sphere, permits the participation of all individuals in building the society in which they have to live and ensures not only the equitable distribution of the results of progress, but also liberty, as the supreme milieu in which there can be self-realization for all.

It is fundamentally towards the achievement of these permanent objectives, consonant with the region's best ideals, that we consider that the efforts of all our peoples and all their leaders should be directed on a systematic and constant basis.