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Development in the Present Decade

by Carlos Quintana, Executive Secretary of the UN-Economic Commission for Latin America

If we look at the Latin American experience, we have to admit that appreciable progress has been made in many aspects of development policy. Of particular note is the fact that the Latin American countries now have an intellectual awareness and a clearer practical understanding of the nature of development problems and are more willing to discuss them and tackle them at the national and international level. Unfortunately, owing to a whole complex of factors and inhibitions, this has not yet been translated into policy decisions being fundamental and forceful enough to create the basic conditions required for sustained economic growth and social development.

Concepts, Ideas and Institutions

No doubt, the work done hitherto has paved the way for a systematic and over-all analysis of the economic and social problems of development and has provided the technical know-how required to define objectives, establish priorities and determine how to mobilize and allocate resources. The progress of planning has increased the capacity and the efficiency of public administration, helped to modernize budgetary procedures and techniques, given rise to revisions or reforms of taxation systems aimed at increasing revenue, and has improved the allocation of public resources through the establishment of public investment plans in almost all Latin American countries.

Worthy of note is also the increased attention given to the social aspects of development, not only in studies and research, but also to a certain extent in the implementation of national education, housing and public health programmes.

With respect to agriculture, important research has been done into the economic organization of agriculture, the distribution of land ownership, land tenure and farming. I should also mention the national programmes for land settlement and agrarian reform, although in practice the energy with which these programmes have been applied and the methods used have varied greatly.

As to other general aspects of economic policy, more resolute efforts have been made to contain inflationary movements, and policies have been changed in order to reconcile anti-inflationary measures with the objectives of economic growth.

Positive steps have been taken towards economic integration with the Central American Common Market and the Latin American Free Trade Association (LAFTA). While LAFTA is encountering some difficulties, the necessary institutions have been established, and the basic elements which will eventually accelerate the integration process as improvements are gradually made are already in existence. The decisions adopted by the Heads of State at Punta del Este to promote the establishment of a Latin American common market during the next decade are very encouraging.

The current decade has seen appreciable progress in international, financial and technical co-operation in terms of concepts, ideas and institutions. The Inter-American Development Bank (IDB) and the Central American Bank for Economic Integration were created, and the Alliance for Progress and its machinery for assistance were established. All these measures helped to give great impetus to planning in Latin America and promoted the flow of external financing; and they were the first steps towards the establishment of an international system to provide the technical and financial assistance needed to carry out national development plans.

Greater Awareness of the Problems

On the international plane, the changes in attitude and policy in international financial and monetary organizations as a result of greater awareness of the problems of the developing countries must not be forgotten. This has been the case with the World Bank and the International Monetary Fund and can be seen in the establishment of new arrangements for compensatory financing.

The most important event, however, has been the creation of UNCTAD. The technical work

done and the discussions held in UNCTAD and within the United Nations in connexion with the UNCTAD sessions have been a positive help in clarifying the nature and the scope of the decisions that should be taken in respect of trade and international financial co-operation in order to promote the development of the Latin American countries.

But economic growth has so far been markedly slow and irregular. The average annual growth rate of the domestic product has been less than 4.5 per cent for the region as a whole, which means an annual increase of only some 1.5 per cent in per capita terms. If we remember that large masses of the population of Latin America are employed in activities with a very low level of productivity, or are virtually unemployed, living on the fringes of economic and social progress, there is no escaping the conclusion that improvements in the standards of living of these vast segments of the population have been virtually insignificant throughout the decade. In short, the region as a whole has not attained the very modest growth rate of 5 per cent which was set as a target in the action programme of the United Nations for this development decade, and it is even further from attaining the targets set in the programme of the Alliance for Progress and in national development plans.

The inadequacy of Latin American economic development can be seen in the continued increase in the total urban and rural population in only marginally productive employment, and this means that people's legitimate aspirations for improved living conditions cannot be satisfied. It is hardly surprising, therefore, that the social tensions that dominate the Latin American scene are becoming more acute and that new factors may jeopardize the success of present efforts towards and of future possibilities of greater development.

Slow Pace of Economic Growth

Admittedly, some countries have attained higher growth rates than those to be derived from the regional averages, but it must be borne in mind that for the most part they are small countries, both demographically and economically, in which the rate of population increase is relatively higher and the average standard of living relatively lower, and which are only just beginning to diversify their economies.

As in former years, the slow pace of economic growth has been accompanied by relative stagnation in agriculture compared with the increase in population. Added to this, industrial activity, which was the most dynamic element in Latin American development, has noticeably declined.

This new situation is particularly evident in countries in which industrial development has made the most progress, and it is connected with the limitation of domestic demand that accompanies the completion of certain phases of import substitution. This occurs when the intensive investment and production required to satisfy domestic demand for specific imports comes to an end and demand for manufactures begins to depend on two main factors: the rate of income growth and the structure of income distribution. As this is an inter-dependent and cumulative process, a decline in the growth of income restricts demand in manufactures, while an income distribution with a high concentration of wealth in certain groups or regions makes for a type of industrial production which does not promote a dynamic and comprehensive development.

Agrarian reform programmes have an important multiple economic and social function, but because of serious opposition and other difficulties, except in a few countries, they have not involved much more than the adoption of a law or two and the preparation of land settlement projects. Thus no solution is found for the problems that prevent a very large proportion of the pop-

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ulation from increasing and widening the demand for manufactured goods.

External Obstacles to Development

Side by side with these and other limiting factors at the domestic level, the external obstacles to development still remain; these are principally the low level of exports, the deterioration in the terms of trade and the increasing cost of servicing external loans and investment.

Although some improvement in export earnings had been brought about by business trend or fortuitous factors, the built-in conditions, which keep Latin American exports low, have once again come into force. In 1967, there was no increase in export earnings; for the region as a whole they were virtually at the same level as in 1966, and in almost half the countries of the region they decreased in absolute terms. The terms of trade again deteriorated. In general, exports continue to be dominated by primary products for which demand is limited and prices unstable.

There was an appreciable increase in the gross inflow of external financing. But if repayments are deducted, there has been no significant change in the net inflow compared with the second half of the fifties. And, if payments of interest and profits on loans and investments are further deducted in the final analysis, the net result of all these transactions is zero for Latin America as a whole.

Indebtedness and Investment

A very striking example of the indebtedness of the Latin American countries and of its effect upon the balance-of-payments is the fact that—while the export earnings of the region as a whole have risen by some 35 per cent compared with 1960—payments of interest and profits on loans and investments have risen by about 75 per cent and repayments on non-compensatory loans by more than 40 per cent; this means that payments on external financing now amount to one-third of current foreign exchange earnings from exports. Interest rates have risen and continue to be subject to upward pressures; consequently, interest payments on new loans will tend to rise, precisely when the amount of external financial assistance available is on the decrease or tending to level off. This gives rise to other very significant factors which will make the external financial position of Latin America even worse.

It is noteworthy that direct foreign investment, which had been at a relatively low level in previous years, has recently increased somewhat. However, a part of this investment was used in some cases to buy or to take over existing national

enterprises, including some which were producing traditional manufactures. This incipient foreign take-over is certainly not the right way to obtain external resources and to reap the benefits of the technology we need from the industrialized countries.

The seriousness and the persistency of these external obstacles justify the developing countries to demand real changes in international economic and financial policy. It was hoped that after the tariff negotiations of the Kennedy Round, which led to important measures promoting the expansion of trade and production in the industrialized countries, the second UNCTAD session would provide an opportunity to reach at least similar decisions which would help to improve the external position of the developing countries.

However, the Conference yielded no results which would make access to markets easier for the Latin American countries' exports of primary products, and only a few limited and partial results in the sphere of preferences for exports of manufactures and external financing for the developing countries; and we are still awaiting an agreement on a system of general preferences for exports of manufactures, and agreements or arrangements relating to primary products are being delayed or postponed. The policy of the industrialized countries is more and more to reduce assistance and external financing, while interest rates are rising and tied loans becoming the rule rather than the exception.

ECLA and the Second Development Decade

The United Nations is working actively on the preparation of an action programme to accelerate development in the Latin American countries during the next decade. The Committee for Development Planning, set up by the Economic and Social Council, is at present considering the objectives and over-all targets, and the policies which might be framed for their attainment. Moreover, the specialised agencies and regional commissions are expected to co-operate in these preparatory technical tasks, contributing the appropriate analyses and approaches in their respective spheres of action.

Like the other regional commissions of the United Nations, ECLA has a tremendous responsibility; what is now required is to prepare a more effective programme than that established for the present Development Decade.

Experience in the first Development Decade shows that this action programme cannot be confined to the establishment of desirable or possible growth targets for the developing countries;

the most important task is to define guidelines and determine the measures that must be adopted at the national, regional and international level.

At the international level, an economic and financial system or organization should be set up to eliminate the vulnerability and external bottlenecks of the Latin American economies. The action programme for the second decade should lay down the measures which the industrialized countries should take and should also cover the strategy that ought to be adopted by the developing countries.

Objective: More Foreign Trade

As regards international economic and financial policy, the objectives of the second decade already appear to be fairly well defined:

☐ to establish the basic conditions and policy adjustments in the industrialized countries belonging to one or another of the economic systems which will facilitate a dynamic expansion of the developing countries' export earnings, through ensuring stable and remunerative prices for their primary products and the growing participation of these countries in international trade in manufactures;

☐ to accelerate regional integration and to promote trade and co-operation between developing countries; and

☐ to establish a financing machinery for channelling resources which will ensure the inflow of basic external resources for the implementation of national development plans and which will meet supplementary requirements in order to avoid distortions in these plans as a result of unforeseen fluctuations in export earnings and in the balance-of-payments.

The economic and trade policy measures must provide for a new international economic system where foreign trade can play a positive role in assisting growth. The financial institutions and measures should be integrated in a system of co-operation which will help countries to step up their rate of growth over the short term, making full use of their internal potential.

ECLA's major concern now is to make a study in depth of the development strategy and policy to be adopted in the Latin American countries.

More Dynamism Necessary

The lack of dynamism in the Latin American economies is shown by several closely interrelated factors, e.g., the sluggish and irregular growth of the over-all product; the enormous inequality in the distribution of income and in living conditions between the various social sectors or

regions; and the concentration of economic growth in relatively modern strata which appear as enclaves in nearly all activities and which employ a very small proportion of the total active population.

These relatively modern activities in the primary, processing and services sectors contribute nearly half the product of the whole economy but they provide employment for only about 15 per cent of the total active population. Of the remaining 85 per cent, some are engaged in intermediate enterprises or activities, and a large proportion in low-productivity or subsistence activities, to say nothing of the considerable number who are unproductive or genuinely unemployed.

This economic and social structure, which is common to most of the Latin American countries, poses immense problems for development policy. To promote a process of economic growth it is essential to increase considerably the stock of capital and to incorporate and disseminate new production methods or techniques in every sector. This involves two requirements:

☐ the promotion of capital formation in terms of investment resources, and

☐ training the population for higher-productivity work.

The introduction of fresh capital and new production techniques in a specific sector means a reduction in the absorption of manpower. Other activities will have to expand if the problem of unemployment or low-productivity employment is to be avoided. In the last analysis, an over-all strategy is required to make the whole economy more dynamic.

It is obviously necessary, therefore, to give more consideration to a policy governing employment and the allocation of resources to the various activities which would achieve the twin objectives of increased productivity and greater employment.

Urgent Capital Formation

To accelerate growth and increase employment it is essential to initiate a very strong drive for capital formation over the relatively short term. If the target of 6 or 7 per cent were taken as a point of reference, the investment-product ratio should be raised to approximately 25 per cent. At present Latin America's saving coefficient is only 16 per cent. It is by no means suggested that the difference should be covered by external borrowing. Such an idea would be nonsensical, because external resources have not supplied, at the most, more than 1 or 2 per cent of the product in the last few years.

Consequently, the dynamism of the Latin American economies will depend essentially on the capaci-

ty available to mobilize domestic resources and substantially to step up productivity. Tremendous efforts must be made, but there is also a tremendous volume of resources in Latin America that can be mobilized. It is therefore urgently necessary to define what institutional reforms and what policies are required to increase investment resources through the promotion of saving and investment in enterprises and by the public sector.

Inequality in Income Distribution

Questions of income distribution have not usually been a major concern in the past. Perhaps it was assumed that economic growth would gradually reduce the social inequalities. Evidently, this is not happening in Latin America.

Generally speaking, the development plans of the Latin American countries include proposals for the redistribution of income, but they fail to indicate either the policies or the measures which should be applied, nor do they examine the requirements in terms of the structure of production which these proposals imply. A study must therefore be made of the nature of those measures and the institutional changes required to achieve a better distribution which might result in improved levels of living.

The sluggish growth of agricultural production constitutes a formidable obstacle to development, encourages inflation and accentuates the inequality in the over-all distribution of income particularly in the rural sector. Agricultural policy must be thoroughly examined and steps must be taken to push forward with plans for agrarian reform and for modernizing the rural economy. It should be borne in mind that an accelerated growth rate, increased employment, and the achievement of the targets for improving standards of living will be reflected in a huge demand for food and raw materials which would have to be met by domestic production. At the same time, a study should be made, within the context of the over-all development strategy, of how much labour can be absorbed by agricultural activities without compromising the attainment of the objectives of increased productivity and rise in rural income.

Furthermore, the intensive mobilization of domestic resources to promote investment and step up demand for popular consumer goods would give a strong dynamic impetus to industrial development, which is now flagging. Industrial development must take on "a new look" in supplying a wider and more diversified market, and the increased output of the traditional industries will help to solve the employment problem.

Regional Integration Policy

In addition, the evolution of the industrial sector will be determined by two other highly important factors: regional integration and exports of manufactures to international markets. These broad guidelines and other factors call for a review of the existing policy with a view to determining what the industrial development strategy of the Latin American countries should be.

Since the integration process is not going ahead as rapidly as is required, an analysis must be made, in the light of present experience, of the nature of the obstacles which hamper it, particularly of the reasons for and the extent of the resistance it arouses. An analysis must also be made of the new sub-regional integration agreements and the role which should be played by other instruments connected with regional development programmes, river basins, transport and communications, and multinational enterprises.

On the basis of this diagnosis and other technical research, a regional integration policy must be framed which would lead to the attainment of the common market objectives and targets established by the Heads of State at Punta del Este. The co-ordination of this policy with development strategy is another tremendous task which lies ahead.

These studies are intended, naturally, to provide information and concrete bases for governments to examine their policies in terms of the conditions prevailing in each country. And they will also be Latin America's contribution on the basis of its experience, the preparation of the United Nations action programme in the Second Development Decade.



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