

CEPAL Review

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Comments by Raúl Prebisch*

I should like first of all to say how much I appreciate having been invited to participate in this meeting: both on account of the meeting itself, which has proved extraordinarily interesting, and because of the opportunity it affords me to comment on an excellent document, on the content of which I unhesitatingly congratulate Mr. de Vries. It is not often that we see economists from the centres discussing questions relating to Latin America and the periphery with Mr. de Vries' lucidity and skill.

I am going to concentrate on the three subjects he chose in the talk we have just heard: projections of the foreign trade of Latin America, trade between the Latin American countries and the external vulnerability of the countries of the region.

1. With regard to the projections, it is very interesting to note that in view of the limitations which the industrial centres will impose on exports from Latin America in the next few years—because of their inflationary situation, their scant likelihood of recovering high growth rates and the resurgence of protectionist policy by which they are adding to the traditional obstacles—Mr. de Vries projects a conservative annual growth rate of 8 to 10 per cent for Latin American exports. This is a satisfactory figure—a few years ago we should even have considered it illusory—but it is not sufficient to ensure an annual growth rate for Latin America of more than 6 or 7 per cent. If it is com-

pared historically with other rates it could be considered high, but it is not so from the standpoint of the need to absorb an increasing labour force at rising levels of productivity.

I should like to digress here and recall some of the remarks which were made yesterday on what we have come to call the consumer society. The consumer society is incompatible with a socially meaningful dynamic economy; if we are not capable of demolishing it, to a greater or lesser extent according to countries and situations, we shall not be able to attain an annual growth rate of more than 6 or 7 per cent. I do not wish to enter into a discussion of this intricate subject, however, and will merely draw attention to the significance of the figures presented in Mr. de Vries' paper.

Although he said that he had estimated the annual growth of exports at between 8 and 10 per cent, he stresses the need to reduce the import coefficient from 11 per cent of the product—in 1974 and 1975—to 9 per cent by the end of the decade. Mr. de Vries accepts with admirable composure the concept of import substitution, which until recently was eyed askance as hardly decent.

CEPAL has been the target of all kinds of criticism—which, albeit diminishing, still persists—with respect to what has inappropriately been called the 'import substitution model', although never has the existence of such a model been recognized by me. I will return to this subject later. For the moment I should merely like to stress that it is interesting and very significant that the need to lower the import coefficient

*Address delivered at the Seminar on Export Promotion Policies held at CEPAL headquarters on 7 November 1976.

should be admitted in spite of the satisfactory export growth rate envisaged; this means a return to the vigorous promotion of import substitution policy, accompanied by the provision of incentives to the growth of exports.

One feature of this meeting has been that hardly anyone has seen any incompatibility between import substitution and the expansion of exports, the need for both having been asserted. It is worth recalling Mr. de Vries' very interesting remark that Brazil would not have been able to launch a thriving export trade in manufactures without previously having established a solid industry based on import substitution.

I think that the projections put forward by Mr. de Vries afford an objective indication of the factors which come into play, given the high elasticity of demand for imports in our countries. There are two basic ways of satisfying this import demand: either by inducing the centres also to increase their import coefficient through liberalization of their trade with the periphery, or by simultaneously combining import substitution with the promotion of exports in various ways. In so far as the first alternative is not achieved, the only other possible solution is the second, if a satisfactory rate of development is to be attained.

There is one objective fact which cannot be bypassed: the difference in elasticity between our demand for imports from the centres and the demand of the centres for our traditional exports. The combination of export incentives with import substitution is something which CEPAL has advocated for many years, and if I now say so again it is because our views in that respect have been conveniently forgotten in order to cast the supposed import substitution 'model' in our teeth. Allow me to

read one or two paragraphs from a report which CEPAL submitted to the governments in the year 1961, entitled *Economic Development, Planning and International Co-operation*. It contains a section on "The basic flaws in industrialization" which includes the following statement: "The excessive channelling of industry towards the domestic market is a result of the development policy pursued in the Latin American countries and of the lack of international incentives to exports of industrial goods from the region". And it adds that "the development policies have been discriminatory as regards exports. Assistance has been given —through tariffs or other restrictions— to industrial production for internal consumption, but not to industrial production for export. The production of many industrial goods has thus been developed at a cost far above the international level, when they could have been obtained with a much smaller cost differential in exchange for exports of other industrial products which might have been produced more profitably".

I believe that this is a sound theory, but the possibility of applying it depends not only on the wisdom with which economic policy is pursued in our countries but also on the attitude of the centres, and it is apt to be forgotten that their policy has been and still is restrictive. As Aníbal Pinto said to me a few days ago, the centres invite the peripheral countries to sit at their sumptuous table and to enjoy the pleasures of their prosperity, but when the peripheral countries arrive, those issuing the invitation look at their guests' shoes or the material of their shirts and begin to establish restrictions, relegating them to another table where the food is less abundant and less tasty, and, what is more, imposing quotas on those who had

naively believed that they could share in the advantages of the first more sumptuous table.

It is very understandable that the centres, in the situation they are facing, cannot enjoy the freedom of action that we should wish. I am the first to understand such problems, particularly where agriculture is concerned, and it is significant that I who come from an agricultural country should recognize that the centres justify their policy with some cogent arguments, although not all of them carry the same weight. What I cannot understand, however, is how there can still be people in our countries who think that the table is open to all, and that breaking down tariff barriers and advocating the free play of economic forces will suffice to resolve our fundamental growth problems. It is this theoretical anachronism that troubles me, this reversion to formulae that the world depression led us to reject so many years ago. These formulae are cropping up again and making for the commission of tremendous errors in our countries' economic policy. I therefore believe that it is very salutary to have at hand documents like Mr. de Vries' study which drive home the fact that the solution of our foreign trade problems does not depend on our policy alone, but also on the policy of the centres. This does not exempt us from efforts to implement a sound policy, but obliges us to take into account the obstacles imposed by the situation in which the centres are placed.

Mr. de Vries mentioned the transnational corporations, and accordingly the stumbling-blocks that have been encountered in this field should also be recalled. The transnational corporations were attracted by import substitution policy. It must be remembered that, in

general, they used to be reluctant to export, and still are in some sectors. Incentives, subsidies and other measures are changing this state of affairs, but I am not altogether encouraged by what has happened in recent years.

As can be seen in the country studies which have been presented at this seminar, and in an unpublished study by Cristóbal Lara which is in course of preparation, the proportion of traditional manufactures in exports to the centres is quite high. The transnationals have tended to export from one Latin American country to another, which is all very well, but to what extent can we rely on them to export to the centres? —not, at this stage, footwear and textiles, since the periphery is perfectly capable of exporting these, but the products which the transnational corporations can efficiently produce and export. How far can we expect vigorous export activity on the part of the transnationals in the articles that Mr. de Vries mentions, such as capital goods, non-electrical machinery, etc.? These are products of a higher level of technology: not of the most advanced, for which we are possibly not prepared, but of those intermediate technologies which Latin America is learning fairly fast. That is the unknown quantity I wonder about: what will the transnationals do towards enabling the projected export growth rates of 8 to 10 per cent to be attained and, if possible, surpassed?

2. With regard to Latin American trade, it is very encouraging to note that, despite the defects of LAFTA and other groups, and perhaps irrespective of their policies, intra-regional exports of manufactures have considerably increased. I have seen the figures for Mexico, Brazil and Argentina, and what they have done

in respect of exports to other Latin American countries is impressive, particularly in the case of Brazil.

Not everything is satisfactory, however, as although from the point of view of these three countries the success they have enjoyed is substantial, it must also be noted that they have not pursued a policy permitting the importing countries to pay for their purchases with goods. On the side of the latter there is an increasing deficit, so that in the relations between Latin American countries much the same pattern is being reproduced as has always existed with respect to the centres, especially the United States: a strong propensity to import, and a persistent deficit because exports have been insufficient to pay for these imports. This should arouse our concern, because it does not seem to me that consistently unbalanced development can provide us with solid bases for growth. In my opinion the countries exporting such manufactured goods are responsible for progressively resolving the importer countries' deficit problems.

I am increasingly convinced that in view of the prospects of the centres it is of essential importance that we should develop trade between Latin American countries. Its expansion would not take the place of extra-regional trade, but would represent additional trade flows and would make it possible to deal with certain problems on rational lines. For example, as Mr. de Vries has already said, an agreement could be reached on the development of certain basic industries in which various countries could share responsibility by products, so that the less developed countries and those which are at a disadvantage in any way would thus be given an opportunity to participate in these high-demand industries and in this abundant flow of trade.

There is no doubt that the Andean Group would have avoided major obstacles if it had carried out this kind of industrial division of labour. It is to be hoped that the idea of such a policy can be taken up again, perhaps by seeking formulae for the integration of the Andean Group and the Central American Common Market under a general agreement on the LAFTA bases or others. For if the LAFTA agreement is found to be inadequate it can be amended by additional protocols or changed altogether. In short, while admittedly the pace of the integration process has been slow, especially in the case of LAFTA, there can be no denying that it has been a very positive instrument. It has not been as effective as we might have wished, but could be much more so.

3. The last point on which I wish to comment is the question of vulnerability. This has already been touched upon; José Piñera has made a very interesting reference, which if I remember rightly occurs in the report prepared by him and R. French-Davis, to the idea that the criterion of economic viability in export promotion policy should also take into account the cost represented for a country by fluctuations in exports.

I have been a government official in a country which has experienced such fluctuations, and at one time I too had to recommend emergency measures to confront them. But I believe that Latin America has never been more externally vulnerable than it is today —and external vulnerability, from the economic and financial angles, also means considerable political vulnerability. It even implies vulnerability *vis-à-vis* the bankers, especially since the revolution which Carlos Massad describes in an article appearing in the second issue of the CEPAL

Review. The countries no longer depend on the International Monetary Fund for their short-term financial operations, but on a group of private bankers.

We have never been over-enthusiastic about IMF in CEPAL, even though it has improved greatly in comparison with what it was 20 years ago, but I fear that with the way things are going in the world Enrique Iglesias will find himself compelled to praise the Fund. Nor shall I find fault with him—I might even join my voice to his—in view of the contrast between the lines followed by IMF and what these bankers are doing today. They are the product of circumstances, and of the current international monetary and financial chaos.

I mentioned my previous experience because I think our countries are now defenceless on both flanks—the economic side and the financial side. Unfortunately the safety net devised by Enrique Iglesias has not so far materialized. Moreover, the chief architect of the international programme for the stabilization of commodity prices, Dr. Abramovic, is participating in this Seminar, and I do not think he looks particularly optimistic, unless I am misinterpreting his expression.

No progress has been made. The most disastrous aspect of all this is that every measure which the developing countries propose encounters a negative attitude on the part of the centres. I should like to see other options put forward, if the solution proposed for primary commodities and the suggested safety net are not considered appropriate. They are rational solutions, however, formulated by people who know the problems and are inspired by a sense of responsibility.

The worst of all is that our countries have lost a formidable instrument for

lessening vulnerability; they used to have a reducible margin of imports, as imports of non-urgent or non-essential articles existed which in the event of external difficulties could be restricted. I acknowledge that I was myself the agent of ruthless control of many items, beginning in an evil hour with French wines and Scotch whisky. However, it was necessary to find a way out of serious situations, and a way was found.

All in all, utter heterodoxy; but it is better to have committed this type of deviation from the orthodoxy of those days than to perpetrate a violation of orthodoxy much more serious than the restriction of imports. I refer to the heterodoxy of resorting to short- and medium-term credit in order to finance imports destined for consumption and not for capital formation. A large part of the debt which Latin America has accumulated in recent years has served to pay for imports of consumer goods; this has gone against all the prudent norms which guided us of old when we resorted to foreign capital.

We no longer have the reducible margin I spoke of, and attention was drawn to this in the 1961 study quoted. We pointed out to the governments that we were taking a misguided course, inasmuch as we were extending substitution to all durable and non-durable consumer goods, creating industries and employment for the labour force in the production of these goods, and at the same time neglecting the intermediate goods which would serve to produce them. Thus when such a situation supervenes as many countries are now faced with, there are no imports that can be reduced, because if any are restricted it will be at the expense of employment. Forgive me for saying 'at the expense of employment'; such concern is perhaps

unjustified, since the other day I read a leading article in a newspaper whose name I do not wish to recall, saying that unemployment is a problem of wages: if wages are allowed to fall to their natural level all the available labour will be absorbed. Yet another example of the invasion of theory to which we are being subjected in the Latin American countries, and which so grossly oversimplifies our situation.

I consider this concern for external vulnerability to be of fundamental importance. We are not going to be able to solve the problem immediately, but I believe that the lesson to be drawn from events today should prevent us from for-

getting the economic cycle. CEPAL has forgotten it, and I blame myself here as a CEPAL man. Preoccupied by such questions as the rate of growth, and structural changes, we have lost sight of the cycle, and the countries have lost sight of it too. In the boom period prior to 1973, we believed that economic growth would continue without major interruptions, and it has not been so. The cycle is, in the final analysis, the growth pattern of the capitalist economy. In default of international measures, we should reflect seriously on the internal measures which we could take to cope with this phenomenon.