

# CEPAL

## Review

*Executive Secretary*

Norberto González

*Deputy Executive Secretary for  
Economic and Social Development*

Gert Rosenthal

*Deputy Executive Secretary for  
Co-operation and Support Services*

Robert T. Brown

*Director of the Review*

Raúl Prebisch

*Technical Secretary*

Adolfo Gurrieri

*Deputy Secretary*

Rosa Nielsen



UNITED NATIONS  
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN  
SANTIAGO, CHILE, AUGUST 1985

# CEPAL

Review

Santiago, Chile

Number 26

## CONTENTS

Note by the Director	7
Crisis and development in Latin America and the Caribbean. <i>Executive Secretariat, EOLAC</i>	9
Statement delivered at the Expert Meeting on Crisis and Development in Latin America and the Caribbean. <i>Enrique V. Iglesias</i>	57
The Latin American periphery in the global crisis of capitalism. <i>Raúl Prebisch</i>	63
The political and social outlook for Latin America. <i>Torcuata Di Tella</i>	89
Modification of the industrialization model in Latin America. <i>Klaus Esser</i>	101
The process of accumulation and the weakness of the protagonists. <i>Víctor E. Tokman</i>	115
The international crisis and Latin American development: objectives and instruments. <i>François Le Guay</i>	127
The revival of American hegemony. <i>Marta da Conceição Tavares</i>	139
Crisis, adjustment and economic policy in Latin America. <i>David Ibarra</i>	147
Remarks and comments	
Massad, C. "The real cost of the external debt for the creditor and the debtor", <i>CEPAL Review</i> , No. 19, April 1983, pp. 183-195	
<i>A note on the formal analysis of real debt servicing</i> (Roger Lindquist and Soren Wibe)	
<i>A reply</i> (Carlos Massad)	155
Recent ECLAC publications	156

# The international crisis and Latin American development: objectives and instruments

*Françcis Le Guay\**

After outlining some of the most harmful effects of the present crisis, the writer describes two theoretical ways out of it: the liberal capitalist and the social democratic. Although the second way seems to him more propitious for the future development of the countries of Latin America, he argues that even this way will be inadequate unless it is accompanied by the establishment in these countries of an independent and self-sustained pattern of development.

During the 1970s, both within and outside the region, many theoretical and practical ideas were elaborated with respect to this new pattern of development, ideas which were pushed aside by the revival of liberal economic doctrine. These ideas remain valid in the writer's view, so that the problem now is not to create a new model but to incorporate an operational element into the notion of independent and self-sustained development, especially in certain key areas such as food self-sufficiency, the introduction of an increasingly independent industrialization process and the development of the industrial and farming sectors.

In seeking to introduce this operational element into theories for the transformation of the prevailing style of development, it is also necessary to confront the question of planning, which should be capable of making a more effective contribution to the orientation of the process as a whole. Foremost among the aspects of planning which need improvement are the integration of time horizons, the meshing of global with sectoral planning, and the development and consolidation of the processes of social harmonization.

Finally, the writer asserts that neither was there any shortage of ideas, of research or even of suitable institutions in the field of integration at the subregional as well as the regional levels; the causes of their shortcomings and failures should rather be attributed to the lack of political will to put them into effect, as was demonstrated by the scant progress made with industrial and energy integration.

\*Professor at the University of Grenoble and the Institute of Advanced Latin American Studies at the University of Paris.

## I

### Some reflections on the effects of the crisis

The most striking manifestation of the crisis—the extraordinary level of indebtedness of the majority of the countries—was the focus of international attention for many months. After the meeting of the International Monetary Fund in September 1984 there was a relative silence on the matter. According to official sources, the production of *ad hoc* solutions for each case (the case of Mexico is the prime example) smoothed over the problem, and the international financial system survived the major danger without the need for far-reaching structural changes. This view appears to me excessively optimistic. Even with respect to the purely financial aspect it seems to me to be very difficult to argue that the present situation, with its enormous net financial flows from the countries of the South to the countries of the North, can be maintained for many more years.

More important than the financial aspects, I think, are the actual effects of the crisis on the economic systems and social and political structures of the developing countries. Taken as a whole, Latin America has passed through three years of serious recession (1981-1983), and the growth of 2.5% in the gross product in 1984 does not even equal the population growth. The average standard of living has been put back 10 to 20 years, depending on the country.

What is even more serious is that the crisis has profoundly affected production systems. In some countries and in some sectors of industry and agriculture it has led to the abandonment of productive capacity and to technological backsliding and dispersal of skilled labour. This deterioration will make it very difficult to achieve rapid growth in certain sectors, even if the demand situation improves.

The social impacts have also been very severe and will continue to be felt for a long time. Owing to the fragility of social security systems, unemployment does not just mean a decline in purchasing power but a sharp plunge into poverty. The hunger in the cities and in the countryside and the deterioration in health, housing and other public services are having irreversible effects on the people's health. In short, the crisis

has exacerbated dependence, social and economic disintegration, and inequalities among regions and social groups —familiar features of underdevelopment. In other words, it has accentuated the pernicious elements in the existing patterns of development.

In this respect the crisis has paid little heed to the categories in which it was fashionable a little while ago to classify the countries of the Third World: oil exporters, newly industrialized countries, relatively less developed countries. All are suffering serious structural damage. If there are differences among them, it is not according to the categories mentioned above, but according to their degree of integration in the economic world. In Latin America the most seriously affected countries include Argentina and Chile, which pursued ultra-liberal policies of indiscriminate openness to the world. In both these countries there are signs of genuine de-industrialization, with the destruction of whole sectors which in some cases had been established many years ago.

These effects have already been extensively analysed. On the other hand, much less attention has been given to a point which, to my mind, is very important: the effects of the crisis on the international political dialogue and on the development of ideas. The capacity of the developing countries to make themselves heard in the world is strikingly weak, when compared to the period 1973-1980. The collective voice of the Third World is no longer heard, as if governments had been paralyzed by the fear of prejudicing the possible solution of their individual situation in the eyes of the creditor countries and international Financial bodies. But much could

be said about the responsibilities implied by the present situation and about the permanent validity of the solutions favoured by the international community in the 1970s. The crisis has demonstrated not that these solutions are obsolete but, on the contrary, that the need to put them into effect is even more urgent.

But this paralysis has affected not only the political dialogue but also the development of thinking in the economic, social and political fields. Even academic and intellectual circles seem inhibited by the arrogance of the neoclassical "new orthodoxy". It is paradoxical that those most responsible for the situation are managing to impose on their victims, in addition to the practical consequences of the crisis, an acceptance of their view of what happened.

From 1984 some more positive signs began to appear in this rather bleak picture. At the political level, the most important was the holding of a series of meetings, beginning in January with the Latin American Economic Conference convened at Quito by the then President of Ecuador, Dr. Osvaldo Hurtado. The Declaration and Programme of Action adopted at that Conference stressed the need to find collective political solutions to the debt problem, with a view to spreading the costs of refinancing more equitably. The Quito Declaration also underlined the need to go even further and promote co-operation among the countries of Latin America in the search for longer-term structural changes in trade, agriculture, industry, etc. This marked the revival of a broad debate on the basic issues which will determine the region's future and its integration in the outside world; and with it ECLAC resumes its one-time role as an intellectual stimulus and as a place for the exchange of ideas.

## II

### The prospects for overcoming the crisis in the North and at the international level

The documents which have emerged since that Conference properly emphasize that strategies for Latin American development must take into consideration what is likely to happen in the world system, which will have an impact on the situation in the region in many ways. It appears essential, therefore, to essay an exercise in international forecasting, at least conceptually, with a view to discussion of ways in which this line of reasoning might be expanded and invested with a quantitative structure.

At this point I will limit myself to a critical presentation of two hypotheses about the solution of the crisis which, I think, sum up in broad terms the general thinking current in the countries of the North.

These hypotheses are not more or less probable forecasts of what is going to happen in the countries of the North up to the year 2000. They represent merely an attempt to state coherently some possible directions that this evolution may take, in order to provide the authorities in the countries of the South with a reference framework for study of their own development strategies.

Before presenting the two hypotheses I must emphasize that there is no guarantee that the international system will find solutions in either of them. It is possible that the present contradictions will not be overcome in any lasting way, and that phenomena such as worker redundancy and imbalances among sectors and regions will persist or that there will be, perhaps, a new recession. The situation in Europe tends to indicate that such a development may take place, and that the possibility of another slump in the United States should not be dismissed. If this happens, divisions among the countries of the North, protectionist trends and international tensions aggravated by the high level of arms expenditures may persist for a long time yet.

In such circumstances all countries, and even more so the developing countries, would undergo a long period of recession and would have

to devise suitable survival strategies. Without wishing to underestimate these possibilities, I think it is more interesting to examine solutions to the crisis that have in fact been applied with some degree of success. This will now be done by means of a summary presentation of two hypotheses.

#### 1. *First hypothesis: overcoming the crisis by the traditional route of liberal capitalism*

The starting point of this hypothesis is the basic assumption that the Reagan Administration's economic policies have already brought the United States out of the crisis. The introduction of the most modern technologies in the main industries is making new advances in productivity possible after a long period of stagnation. The relaxation of the regulations in a number of sectors and the dismantling of the rigid systems of the "Welfare State" are injecting enterprises with a new energy. Non-inflationary gross product growth and a considerable reduction in underemployment are thus being achieved.

According to this assumption, the continued application of these policies will ultimately result in a more thorough dismantling of the "Welfare State". The market's sphere is being extended to social activities which were formerly the responsibility of the State (health, education, communications, postal services, and possibly even security services). The scope of capitalist accumulation is thus being expanded, and high-productivity sectors are being integrated with mass-consumption sectors. New patterns of consumption are emerging and gradually gaining ground, providing reserves of growth for a long period to come. This model of growth is accompanied by enormous inequalities among regions and social groups.

In this hypothesis, without the counterweight of the State and society, the American transnational corporations will strengthen their power, expand their field of action and increase

the number and efficiency of their operations. The American State encourages these activities in the domestic market and supports them overseas.

The stable and lasting realization of this scenario in the United States presupposes that solutions will be found to the problem of the deficits of US\$ 200 billion in the federal budget and US\$ 100 billion in foreign trade which the country now faces; clearly, this goal will not be easily achieved.

At the international level, the implementation of this theory requires that the growth model and consumption pattern devised in the United States should be extended to the other industrialized countries. It is likely that Europe will find it very difficult to make such changes, for this would mean the *defacto* dismantling of the traditional social security systems. Such a development would provoke tensions and conflicts which would have an adverse effect on the competitiveness of European industries and on their influence and presence in comparison with the United States and Japan at the world level and indeed in the European market itself.

According to this theory, Japan would be a privileged partner of the dominant American pole, although the introduction of the new model would run up against difficulties of a cultural kind. Some South-East Asian countries might take an active part in the American-Japanese model, and the centre of gravity of the world economy would shift increasingly towards the Pacific area.

In this situation the international system functions without major institutional changes. Transnational bodies have a role of limited importance. The monetary system is based on dependence on a strong dollar. In short, it is a world existing under the sway of the American transnationals backed up by the political power of the United States.

In the next section consideration will be given to ways in which the developing countries can devise development strategies on the basis of the two hypotheses. It is clear that under the first assumption they have very little scope of action to resist economic and political domination. The prevailing pattern of consumption would continue to spread to the social groups that have adequate incomes. The South's production sys-

tem would participate in the international system in the sectors and countries which the transnationals consider advantageous for the maximization of their own earnings at the world level. Basically, this would mean the traditional sectors of mining and agriculture and certain basic or labour intensive industrial sectors which could be incorporated in the international division of labour. It seems inevitable that this scenario will produce more inequalities and imbalances among the countries of the Third World and, within each country, among the sectors incorporated in the world market and those left outside it.

## *2. Second hypothesis: overcoming the crisis by the social democratic route*

It is assumed here that the policy outlined in the previous scenario will reach a dead end after some years even in the United States, and that systems will be sought which offer a better balance between a flexible capitalism in which the transnationals remain strong and States of the social democratic type. This would require new forms, distinct from the traditional "Welfare State", capable of meeting the demands of society with efficient public services, achieving a degree of redistribution of income among regions and social groups and finding innovative solutions to the problem of underemployment. The consumption pattern would be somewhat different from the one described in the previous hypothesis: there would be greater development of collective services and a different division of time between work, community like and leisure. Several different patterns might in fact be envisaged, some making relatively large use of traditional goods and services, others being more innovative in that the development of society outside the market would arrive at growth models close to "zero growth".

At the international level, several variations on this theme can be envisaged, depending on the geographical spread of this type of solution. One would be its extension in various forms to all the countries in the North, with shared and balanced management in the international system. Another variation would imply a situation of greater conflict in that Europe would adapt more

easily to systems close to its traditional social organization, while the United States would be slow to find a suitable solution and would remain in a state of crisis for a longer period.

In any event, these models entail the introduction of counterbalancing forces (the State and society) into the market economy. At the international level, this would mean strong international institutions capable of controlling the system in the monetary, financial and trade fields. In addition, the necessary conditions would be created for the application of measures similar to the ones proposed in the Brandt Report and in a number of United Nations resolutions: organization of the commodities markets, systems of preferences, increases in the transfer of technology, intensive and widespread aid, and industrial restructuring at the world level by international agreement.

The question that must be asked here is whether, even on the apparently very optimistic assumption of the widespread introduction of this kind of system, this would mean genuine development in the countries of the South. My personal opinion is that, unless it is accompanied by the implementation of very determined measures to promote independent development by those countries themselves, this type of international system, although more beneficial than the system described earlier, will not in fact attain the objectives set by its advocates. There is a very big risk that an international strategy of this kind might produce heavy dependence and greater inequalities among countries and among social groups. Selective integration in the world market might lead to increasing internal dislocations, marginalization and proletarianization in the larger part of the Third World.

I think that it is appropriate in this connection to dwell on some of the solutions to the crisis

based on schemes for a massive increase in North-South financial flows, sometimes described as a new Marshall Plan for the Third World. These schemes emphasize North-South interdependence and seek to solve at one and the same time the problems of unemployment in the North and the lack of investment in the South. Before embarking on such plans it would be worth analysing what happened in the latter years of the 1970s and the first years of the 1980s. The abundance of liquidity (partly petrodollars) in the North combined with the recession to result in an increase in North-South financial flows at much higher levels than in the proposed Marshall Plans. This produced in fact a sharp increase in trade flows (luxury goods, armaments and some capital goods) and was very useful for the recession-threatened industries of the North. But for the South the abundance of funds meant competition from imported goods for their national industries, mammoth projects, economic and social disruption and enormous debts. Clearly, interdependence was a one-way street.

The history of recent years invites us to reflect on the shortcomings of solutions based on financial transfers. The development difficulties encountered by the countries which have the use of resources from income (income from oil or other sources) offer material for reflection along the same lines.

It is to be hoped that the present analysis of the situation will contribute to a clearer awareness that international financing, which for many years has been the centrepiece of the whole development debate, is in fact a two-edged sword. In this connection it is worth mentioning the news that the World Bank is "going to have to reduce the level of its lending in 1985 owing to the lack of demand from the developing countries. It will be interesting to see whether this trend continues in the future.

### III

## In search of a new model?

It may be concluded from what has been said above that the developing countries need a new pattern of development or, to use a term which has been current in Latin America in recent years, new styles of development. I do not wish at this stage to engage in a controversy on the point touched on by Enrique Iglesias in his presentation at the ECLA meeting in Lima in 1984: whether it is too early to seek an economic model for Latin America (Iglesias, 1984). The analysis of the crisis and the exploration of the possible effects of the hypotheses described above offer instead reasons for re-examining the ideas developed in the 1970s which, to my mind, have lost none of their validity. The neoliberal policies pursued under the "new orthodoxy" have demonstrated their harmful effects. They have exacerbated inordinately the structural defects of dependence, inequality, economic and social disruption and environmental damage which are characteristic of underdevelopment.

Although the severe restrictions associated with indebtedness create more difficult conditions, the need to extricate the developing countries from the negative influence of the international market now seems more evident than ever before. The crisis has placed on the agenda the search for strategies of independent, self-sustained development. These concepts created in the 1970s by Third World researchers became part of international thinking and debate in the middle of that decade. They found public expression in papers issued by the Hammaraskjold Foundation or at the Cocoyoc meeting. They also appeared in official documents of the United Nations system resulting from, for example, the sixth special session of the General Assembly (May 1974), the Lima Conference on industrialization (March 1975) and the ILO Conference on basic needs (May 1976).

The events of the following ten years have not rendered invalid (quite the contrary) the conclusions reached at that time, such as, to mention just one of them: development is something distinct from mere economic growth, but it implies structural changes. These changes will not be

brought about by the interplay of market forces alone; deliberate action to redistribute production, risk and power is needed at both the national and the international levels.

In the field of industry the international community adopted a quantitative target for the restructuring of the sector at the world level and decided to set up a permanent system of consultation, with a view to the adoption of measures capable of achieving this restructuring.

Development implies that basic needs should be satisfied as a matter of priority and that appropriate policies should be pursued for the redistribution of income.

The essential problem with these development strategies is not that they were mistaken but that they were not put into practice. Even in countries where these principles were proclaimed as the theoretical basis of national policies many contradictions may be noted between the principles and the measures actually taken.

Today, likewise, the countries of the Third World are trying to win a degree of independence that will let them decide, in accordance with their own development objectives, as to their patterns of consumption, the goods they produce, the choice of technologies, their investments and the utilization of their financial capacity. This is possible only if at the same time they have a certain amount of autonomy as to their involvement in the international system and the determination of their trade, financial and monetary policies.

Such strategies might appear Utopian in the present circumstances. The majority of the countries will run up against insuperable obstacles if they try to apply them in isolation. But they might be more feasible if South-South co-operation were to be organized in agriculture and industry and if suitable institutions were established for trade, financial and possibly monetary regulation. Clearly, the international context may be favourable to a greater or lesser degree to the implementation of strategies of self-sufficiency. For example, of the ways out of the crisis described in the preceding section, solu-



tions of the second type would make independent development a less difficult undertaking than would solutions of the first type.

In any event, to my way of thinking the present problem is not to define a new model but to incorporate in the concept of self-sustained development an operational content that can take material shape in specific decisions or clearly defined measures of economic policy. The content of these objectives and their interrelationships will obviously have to differ from one country to another. In general terms, the most important key points, the nucleus of decisions on which the effort, the measures and the action will be concentrated must be sought out in each individual case. By way of illustration, I would mention certain key points which appear to be of importance in the majority of the countries of Latin America:

—Achievement of food self-sufficiency. This point relates to the objectives of breaking free from dependence, modifying patterns of consumption, meeting essential needs, etc. It concerns the rural sector, which would have to be thoroughly restructured. It also affects foreign relations (position on world agribusiness, international co-operation), industrialization strategy, countrytown relationships, etc. To give this objective maximum priority, not just on paper but by setting in motion a concrete process with targets and dates, could mark a fundamental redirection of economic and social policy as whole;

—Definition of the process of industrialization starting with an indigenous nucleus (Fajnzyl-

ber, 1983) and proceeding via a progressive dynamics of increasing independence. This implies not only production targets and investment programmes but also policies and institutional systems to control the import of technology (cf. Mexican policy in the 1970s and decision 24 of the Andean Pact), research and technical training institutes, capital goods production projects, etc.; it also means the horizontal integration of all sectoral activities;

—Integration of modern technology enterprises with traditional enterprises in the farming and industrial sectors. The deterioration in this integration is a major cause of underdevelopment, social and regional inequalities and the transformation of modern enterprises into "enclaves of the international system. Progress in this area will require not only the adoption of domestic measures for each sector but also strict control of external relations, greater concentration on the domestic market, price control, the adoption of fiscal incentives, training programmes, etc.

In citing these examples it was not my intention to embark on an analysis of each of the topics but to indicate that they are not of merely sectoral scope, requiring fragmented attention. Each of them combines external with internal elements, horizontal with vertical aspects, and sectoral measures with global and institutional ones.

The desire to inject a concrete content into objectives which often have remained fixed in the past from the conceptual or even rhetorical standpoints entails contemplation of new forms of planning and co-operation.

## IV

### New forms of planning (Le Guay, 1984)

Planning, which thrived in the 1970s in both Europe and Latin America, has since gone through a long period of decline. It may seem paradoxical to wish to revive it in much more difficult times, when uncertainty about the future is at a peak and governments are under continual pressure to take urgent, very short-term decisions. I think, however, that while times of crisis make things more difficult, they also

make them more necessary. Since governments need to solve the immediate problems and at the same time devise new strategies, they are compelled to conceive planning systems with renewed institutions, processes and methods.

I shall offer some suggestions in this connection, based on a critical examination of the methods devised in earlier periods. Clearly, these methods were not entirely in tune with the logical

conclusions that flow from the proclaimed principles concerning the nature of underdevelopment and the strategies needed to overcome it. Many of the plans did not give a concrete content to the declared principle that development is something more than economic growth; and in fact the objectives were limited to the achievement of the fastest possible growth.

The technical instruments used mostly suffer from the same limitations: the models of optimum global effect relate to the national or sectoral levels; the cost-benefit analyses of the projects are aimed at maximum product output, i.e., an arithmetic and not a structural goal.

In order to overcome this dichotomy, it is not enough to include in the objectives figures for gross domestic product, production rates or investment levels. A practical content must be given to concepts such as "styles of development", the theory of which has made progress in Latin America in recent years. This is to say that there is an interrelationship among the different aspects of a strategy: consumption patterns, income structure, sectoral integration, choice of technology, external relations and cultural identity. Thus, the planning system, the process of compilation of the plans, the technical tools used and the planning institutions must be organized accordingly.

And so, it is a question of conceiving and constructing a planning system which effectively helps the process of making decisions on the complicated matters mentioned above, incorporating multiple objectives which cannot readily be traded off against each other; moreover, this system must be flexible, capable of rapid adaptation to the sudden changes that can affect domestic or foreign conditions. I will limit myself to some thoughts about the characteristics of such systems.

### *1. Integration of time horizons*

For a long time planning systems gave priority to the compilation of medium-term plans. What is needed today is planning that is at once more strategic and more operational, i.e., that achieves a closer integration of the structural objectives, which are usually of long-term effect (15 or 20 years), with decisions involving the inherent measures of economic policy, which are taken today.

To this end, I think it important to extend the planning tools in both directions: towards the long-term and towards the short-term.

In the long-term this means devising forecasting tools capable of making projections to the end of the century on the state of the world system and the consequences of national and regional strategies. This includes quantitative forecasting, which is the only means of ensuring a minimum degree of consistency in the evolution of various magnitudes. That does not mean that the long-term plan should have the same categories and the same details as the short-term one.

These forecasting tools should facilitate the study of the consequences of alternative strategies in the light of a number of different assumptions about the future of the international system. It would be a great help for the purposes of studying the effectiveness of the exercise and the possibilities for co-operation among the countries of Latin America if the various countries could agree on common assumptions about the international situation. It would then be possible to compare strategies and collate their points of compatibility. This would be a first step, taken bilaterally or regionally, towards the harmonization of strategies.

In parallel with extension towards the long term it is very important in the present circumstances to devise tools for the permanent implementation of the plans which can adapt swiftly to the changes that occur in the international or domestic situations. Experience with annual operational plans (sometimes also called economic estimates) is very helpful in this connection, although in the present situation other difficulties do arise. Very sudden changes can take place in inflation rates, the balance of payments, the level of unemployment and interest rates; it is very difficult, therefore, to assess consumption performance, savings, investment, and the production decisions made necessary by these changes.

Various practical consequences may be inferred from the foregoing:

—The need for a much more dextrous system for the collection, dissemination and analysis of the economic information required for the decision-making process;

—The creation of forecasting tools suited to

situations which are very different from those of the past removes much of the validity of models based on the relations of historical behaviour.

—The importance of closer co-ordination among the institutions which participate in economic-policy decisions and, accordingly, in the preparation of the annual plans which assist that process (in particular, planning and financial bodies and central banks).

## *2. Integration of overall planning with sectoral planning*

In traditional planning methods the interrelationship between overall planning and the planning of the various sectors was often weak both conceptually and with regard to institutions. Overall planning provides a fairly rough outline of the general demand structure. In fact, the planning of each sector is carried out almost independently in each of the ministries concerned; in the highly intensive sectors the big enterprises have an important role, and the national plan is rarely a joint and more or less co-ordinated presentation of the outlook for producers.

An instructive example of this is provided by the energy sector, in which planning is sometimes limited to the oil and electricity subsectors. In many countries, on the recommendation of the World Bank, energy-planning exercises are carried out outside the context of overall planning.

Inevitably, these sectoral or subsectoral plans are concerned only with maximizing the partial product, in accordance with criteria of maximum output applicable to a single sector or sometimes to the enterprise responsible for a single subsector. Thus, the lack of integration of Latin American economies grows worse, and harmful external effects are multiplied. As we saw earlier, the objectives of genuine development do not relate to one sector alone but to several sectors, and to the links among them—a factor which should be taken into account in sectoral planning methods and in the organization of sectoral planning institutions. The studies undertaken and the decision-making process should enable a choice to be made from among alternative solutions which, while still offering promise from the standpoint of the sector concerned, also have

indirect positive effects on the general objectives and the development of other sectors.

To take the example of energy planning a step further, the planning methods would have to avoid a repetition of the mistakes made earlier in many countries, when energy systems were constructed which were unsuited either to the users' needs or to the countries' resources. This would mean including in the planning process decisions on the use and management of the energy and not just on the sector's production and investment. It would also mean counterbalancing the present dominant role of oil in countries which do not have their own resources by promoting other national energy sources.

Only methods which go beyond optimization models or cost-benefit analyses can facilitate rational decisions on such complex problems as, for example, electrification as the basis for the development of a national capital goods industry, the study of the positive and negative effects of a programme for the use of certain crops for energy (Proalcohol), and overcoming the harmful effects of oil income on the social and economic systems of the producer countries, etc.

## *3. The harmonization process*

Planning in Latin America has been criticized for being too bureaucratic and producing plans drawn up without consultation of the social groups concerned, plans which therefore have little practical influence on the subsequent operation of economic policy.

The happy revival of democratic government in the majority of the countries offers an opportunity for renovation of planning systems and incorporation in them of a machinery for consulting social groups. This is even more necessary in the present difficult situation, when the mistakes of the economic policies of the past—and their most visible consequence, debt—are going to mortgage the future development of the countries for many years. However, if governments are to devise long-term, independent strategies and defend them against external pressures, they must have the broadest possible domestic support. The compilation of medium- or long-term national plans by means of a process

of consultation and agreement can help a country to find a point of convergence of different

aspirations and alleviate conflicts which seem insuperable in the short term.

## V

### New forms of co-operation

As in the case of planning, the theme of co-operation among developing countries, and more specifically of regional co-operation in Latin America, at one time awakened great hopes, which were followed by many disappointments. It is not possible in this paper to analyse the advances and retreats of the various regional and subregional schemes in Latin America. Political developments in some of the countries of the continent and indeed the wave of ultra-liberal policies certainly had harmful effects. The South-South co-operation effort loses much of its purpose if development is sought by means of indiscriminate involvement in the world market. Sometimes even foreign enterprises can have more of the strength and flexibility needed to take advantage of the favourable provisions of certain treaties of integration.

On the other hand, if the road taken is the one that leads to self-sustained development, regional and subregional co-operation regain all their importance. There is a wealth of legal texts, institutional structures and accumulated experience at both regional and subregional levels. It would be very useful to make a historical and critical analysis of the various schemes and identify the causes of their failure with a view to the proposal of innovatory measures which will make it possible for new strategies to be put into practice. At this stage I would advance one single idea: there was no shortage of concepts, ideas, texts or studies, or even in some cases of institutions and qualified staff; what was lacking were development strategies capable of taking advantage of those elements. The instruments of co-operation among countries lose their effectiveness unless the countries decide at the same time to establish commoripositions towards the outside world. I will give just one example: the celebrated decision 24 of the Cartagena Agreement. It contains all the elements for effi-

cient industrial co-operation that extends beyond the trade and financial aspects and aims at common industrial and technological policies. Its defect lies not in its conception but in the fact that it has never been put into practice. It might regain its relevance if the member countries agreed to determine jointly their mode of integration in the international market and their long-term development plans. With regard to the Latin American region I would simply like to mention two documents which concern important sectors and which might also prove to be useful tools in the present circumstances.

In the case of industry I would recall the Latin American Conference on Industrialization, attended by industry ministers at Mexico City in November 1974. In accordance with the recommendation of the sixth special session of the United Nations General Assembly and looking forward to the Lima Conference which took place a few months later, the Conference adopted a quantitative objective for Latin American industry within the world framework and affirmed, *inter alia*, the principle that the uncontrolled operation of market forces is not the most suitable means of promoting industrialization and that agreements on industrial co-operation between governments and enterprises should be worked out with assistance from the United Nations system.

At the regional level, too, the Conference proposed objectives for harmonization and co-ordination of industrial policies, for specialization and complementary arrangements, and for the strengthening of existing integration plans and the search for new forms. It resolved to adopt measures for the harmonization and co-ordination of investment policies (national and foreign), technological development, scientific and technological co-operation, and protection of export prices. It approved the principle of Latin American transnational enterprises, agree-

ments on complementary arrangements and a regional imports system. It commissioned the regional organizations, especially ECEAC, to evolve study and promotion activities to contribute to the implementation of the measures adopted.

After the passage of ten years it must be admitted that little has been done to give effect to these excellent ideas. Governments were unable to invest the principles which they themselves had proclaimed with a concrete political content. Neither ECLAC nor SEI.A, a recent creation at the time, took advantage of the favourable circumstances and the clear mandate they had been given to undertake determined action to promote industrial co-operation.

The difficulties resulting from the crisis, provided that an adequate analysis is made of their causes, may stimulate the Latin American countries to adopt new styles of industrial development, starting from the indigenous nuclei which exist in several parts of the continent. If that happens, industrial co-operation activities along the lines devised ten years ago can multiply the opportunities and accelerate the process.

The energy field also possesses possibilities for co-operation which have not been fully utilized. One very interesting initiative is the San José Agreement between the oil-producing countries (Mexico and Venezuela) and the oil-importing countries of Central America and the Caribbean. This Agreement links the supplying of oil to the financing of development projects, especially in the energy field. Without embarking on a detailed analysis of the implementation of the Agreement, it must be noted that despite its positive points it has recently shown a tendency to slow down. It should also be noted that the latest renegotiation has resulted in conditions less favourable to the recipient countries.

The Latin American Programme for Energy Co-operation (PEACE), approved in 1981 by 25 countries within the framework of OEAUE, is more ambitious. Its aim is to develop among the

countries a common strategic view of the provision of energy, promote unified and lasting actions and encourage co-operation in all areas of scientific and technological capacity, prospecting and exploration, and training, PLACE seeks to go beyond the exchange of information, the conduct of joint studies and research, and technical co-operation; it is proposing the establishment of joint industries, in particular a Latin American capital goods and equipment industry for the energy sector.

After three years in existence, PEACE'S achievements have been somewhat disappointing. Projects are under way on only a limited scale. For the most part they consist of studies, training and technical assistance. The concrete projects concern individual countries and are not helping to develop joint productive capacities in several countries together. It has to be asked whether since adopting the programme, governments have really demonstrated the will to put it into operation. But it may also be noted that the OLADE secretariat has devoted a major effort to technical and methodological work (such as energy balances, methods of forecasting supply and demand, training seminars, etc.), fields in which several research institutes are already operating efficiently in Latin America. Meanwhile, the political task of promoting joint projects and enterprises among member governments has been neglected. Nevertheless, these possibilities remain open, and for many reasons the energy sector is one which lends itself well to rapid progress in the matter of Latin American co-operation.

This paper expresses the conviction that despite the predominance of the current ideology—the new orthodoxy—the time is very ripe for some deep thinking about a new stage in Latin American development. The presence of democratic governments in the majority of the countries and the search for a new direction that has become evident, particularly since the Quito meeting, testify to this possibility.

### Bibliography

- Fajnzylber, Fernando (1983): *La industrialización trunca de América Latina*, Mexico City: *Nueva Imagen* Publishing House.
- Iglesias, Enrique (1984): "Latin America: crisis and development options", *CF.PAi. Review*, No. 23, August.

- Le Guay, François (1984): Paper presented at the seminar on Planning in Times of Crisis, organized by the Programming and Budget Office, Mexico City, [illy].