

BEYOND THE CRISIS: IDEAS FOR A NEW DEVELOPMENT STRATEGY IN LATIN AMERICA

*SERGIO BITAR**

It is not unusual to point out that between 1982 and 1985 Latin America experienced its most severe economic and social crisis since the 1930s. In some countries, the deterioration experienced during this period has been of even greater magnitude than that of the Great Depression and has endangered the viability of several nations.

The crisis of the early 1980s found Latin America without a homogeneous body of concepts; uncertainty and perplexity were dominant. The rigor of the onslaughts bewildered many. The reaction of governments was partial and inarticulate. But, at the same time, the deteriorating social and economic situation forced a rapid and profound revision of policies and in recent years more defined norms for overcoming this period of prostration began to take shape.

* CLEPI (Latin American Centre of Economic Studies and International Politics), Santiago, Chile.

An alternative focus is now developing. Emerging ideas are being outlined and articulated. However, these ideas still display weaknesses and inadequacies that require attention. It is possible to propose an alternative model which would have to compete with the body of ideas and policies advocated from outside the region that enjoy a response in the Latin American countries and point in another direction.

Latin American thought and new ideas are a response of primary importance for changing prevailing developing trends. This theme is the object of this article and is based on three central postulates:

Firstly, Latin American thinking suffered from fragmentation that culminated in the 1970s and now one can observe a process of convergence and rearticulation. Secondly, the elaboration of this alternative thinking exhibits weaknesses and lacks the cohesion necessary to facilitate the emergence of a more coherent and stable strategy. Thirdly, the primacy of a new focus is not assured, since a counter-model is in operation.

CRISIS AND FRAGMENTATION OF THOUGHT

We can describe a fragmentation into four schools of thought, some of which have interacted:¹

- a. Structuralism, which has served as the basis for transformist and developmentalist thought, looking to changes in the productive base of industrialization.
- b. Dependency, that permitted the interpretation of the type of subordinate linkage to the economies of developed countries and served, in particular, for designing proposals to contain transnationalization.
- c. Global monetarism, based on opening financial and commercial markets, the free functioning of the market, and a monetary policy that responds passively to external financial fluctuations, was thought to provoke an automatic adjustment and encourage development.
- d. Exports, as the sustaining pole for growth and international competitiveness.

At various times and in different countries, these four schools have been accorded different emphasis. Today, Latin American thought is in the process of an important revision, and the new concepts have not been formulated with total clarity. However, it also happens that while conceptual inadequacies become more acute, revision of Latin American thought becomes more urgent. This is what is happening in the mid-1980s.

When one reviews the history of the region's recent economic thought, one finds that

many of the ideas mentioned above are today vigourously reasserting themselves. In the 1970s a debate had already been started concerning the strategic changes needed in order to confront so-called "exhaustion of the import substitution model". Policies were proposed to turn economies outwards and to promote exports. However, this debate was carried out during a period when economic growth was observed in many countries and there was no warning that abrupt alterations might be unleashed, much less that a regression was impending.

Since the 1950s, all countries had pursued similar policies for encouraging stable growth. The drive toward industrialization and new forms of commercial integration were supported. Internal markets were expanded through various redistributive measures. Tax reforms were proposed in order to provide the state with more resources. Agricultural reform was urged in order to modernize the rural sector and increase production. The state extended its savings and redistributive functions and intervened directly in managerial arrangements. This is confirmed by the studies of the epoch.² Numerous policies were inspired by structuralist thought.

The growth of the gross domestic product reached an average of 5.7 annually during the 1960s and 5.9 in the 1970s. The GDP almost tripled between 1960 and 1979.³ While in the midst of an ascendent phase, it was natural that the majority of countries only contemplated gradual modifications. Options were designed such as the extension of import substitution to promote the production of capital and intermediate goods and to reinforce export promotion. Policies were evolved to limit the extent of foreign ownership and favor social groups in extreme poverty. The theory of dependency contributed by drawing attention to the dangers inherent in control over the productive apparatus by transnational corporations, the imitation of the developed countries' consumption patterns by the middle classes of Latin America and against the absorption of obsolete technology. Poverty was also viewed from a structural perspective and this led to new ideas concerning changes in the form of property and in the structure of production and employment.

In the countries of the Southern Cone, for reasons which in my judgement were political in nature, military dictatorships pursued radically different policies, abandoning the above model and venturing towards an indiscriminate external opening with an almost exclusive emphasis on the *magic of the market*. International monetarism gained force as a mechanism for adjustment during a large part of the financial crisis. Despite the policy differences adopted by each government, a spirit of slight preoccupation, if not negligence, prevailed. Collective memory continued to be marked by the expansion of the preceding years and the flow of external resources dampened any eagerness for reform. The absurd aperturista och ultraliberal policies were also able to survive.

The changes that rocked the world economy in the mid-1970s began to arouse anxiety and later led to bewilderment. The oil shock, productive and technological transformations, and *stagflation* in the developed countries attracted attention and voices were raised in alarm. Nevertheless, since these effects did not immediately spread to the region, it was thought that they would be transitory. It was also believed that the problem was limited to the industrial countries which were passing through a structural crisis, while dynamic growth would be maintained in the region. For a time this is what happened. Growth could be prolonged thanks to an inflow of capital of a magnitude never seen before. The views of international organizations contributed to inhibiting reactions in Latin America. In their reports they highlighted the progress made and only sounded cautious warnings in the face of the growing deficit in the balance of payments current account. This is evident in several writings by ECLA⁴ and the Inter-American Development Bank.⁵ Not once was emphasis put on the effects of such a significant increment in the vulnerability of the region to external economic events. Not only was the magnitude of the financial recession underestimated; even more seriously, the magnitude of technological change and its consequences for productive structures and foreign trade were neglected. In advanced countries technical progress had accelerated while in many Latin American countries it had slowed down. The technological gap increased considerably.

1981-1985: PERPLEXITY

In 1985, real per capita income declined to the level of 1977. The same year, the GDP per inhabitant was found to be 9 below the level of 1980.⁶ Urban unemployment rose appreciably and inflation accelerated spectacularly, passing from 56.1 in 1980 to 325.8 in 1985.⁷

When the region's output fell for the first time in 1982, an exaggerated amount of external credits still flowed in and it was thought that the recession would be temporary.⁸ Beginning in 1983, the picture was aggravated by financial restrictions, the result of the enormous external debt and the irresponsible behavior of banks and governments. For the first time, in 1982, Latin America has to carry out a net transfer of resources of 18.3 billion dollars to the exterior (the payments of interest and dividends minus net capital inflow). The same occurred in 1983 (30.5 billion), in 1984 (22.7) and 1985 (28.1).⁸

Various negative factors were superimposed: a rise in real interest rates, a virtual cessation in the inflow of capital and considerable deterioration in the terms of trade. Between 1980 and 1985 the terms of trade fell 16.5. Even so, in 1982 and 1983 no correc-

tion of the policies in force was attempted. Moreover, the multilateral organizations, international lending banks and the Reagan administration spread a paralyzing thesis: that the problem was transitory and that it would be overcome in the short term only if debtor countries carry through a contractive adjustment in order to eliminate "excess expenditures". The banks and governments of the developed countries assigned to the IMF the function of imposing the contraction, with the object of securing a trade surplus with which to pay interest on the debt. This organization acquired the capacity to intervene in the internal affairs of a country to a degree previously unknown.

The thesis that everything would be temporary survived until 1984. Meanwhile, the adjustment was drastic and imports fell by nearly 50 between 1982 and 1984. However, despite the great regional effort, the financial inflow was not reestablished. On the contrary, the transnational banks distanced themselves from Latin America and indicated that they would reduce their presence in the region. Governments put themselves on the wrong track by following the message arising from the North: observe the restrictive policy, rather than studying for themselves what was actually happening or adopting a medium term perspective, much less an alternative development strategy.

Recently, in 1984, several factors began to emerge that pointed beyond the financial crisis and indicated that Latin America was in the presence of a process of long duration. Transformations in the world economy became visible. The prolonged financial restrictions and the fundamental change in the productive structures and technology demand a new strategy, a new focus, a new style of development. However, the emerging factors are not entirely clear. Although the symptoms of the diagnosis and an alternative outline have been identified they had not been sufficiently articulated, much less found the social and political backing crystallize into a new set of policies.

THE SEARCH FOR A NEW DIAGNOSIS

Among the majority of social and political scientists in Latin America today, there is manifest agreement on diverse aspects, both national and international.⁹ In relation to national aspects, one can mention:

- i. All of the countries of the region suffer from greater external vulnerability. This growing dependence is not only the result of the financial burden and the subordination to interest rates determined by the developed countries. It also derives from technological and productive transformations in the countries of the North which

appreciably affect Latin American trade, especially exports. Governments in Latin America have lost room to maneuver in the design of economic policies; the IMF and World Bank impose onerous and sometimes intolerable conditions. Greater national autonomy needs urgently to be regained.

ii. Internal inequality has grown. The standard of living of the great majority has declined. Extreme poverty and unemployment have increased. These factors also give rise to social and political instability.

iii. The crisis has a structural character. The adjustment processes are inefficient and are not applied in a long term perspective. The productive structures, in general, show disarticulation, scarce competitiveness and obsolescence, being unable to deal appropriately with technological change and new tendencies in foreign trade.

iv. Heterogeneity has grown in Latin America. Differences between countries have increased, especially between Brazil and the other nations in the region. The heterogeneity in the national space has also increased between modern and peasant agriculture, between high productivity sectors and traditional urban activities, and between technicians and functionaries with high qualifications and temporary workers with little education. This heterogeneity threatens national integrity and can be aggravated depending on the type of international insertion.

This picture of reality makes it inadvisable to elaborate *general models*. In reviewing those elements of an international nature, agreement on the following criteria is manifest:

i. External economic restrictions will prevail for a prolonged period. The technological and productive changes taking place in the world economy are profound and of long duration. One must not expect significant alleviation in restrictive financial conditions. Because of this, and because of the nature of the international technological change, Latin America must adopt a new strategy and distance itself from the logic of short term adjustments. In general, a marked scepticism exists concerning the aperturista formulas and neoliberal schemes for overcoming the crisis that until recently seduced so many economists and politicians.

ii. Most Latin American nations have accumulated a substantial technological and productive lag with respect to the advanced countries. Moreover, they are viewed by the North as marginal and secondary. Latin Americans, on the other hand, tend to attribute more international importance to the region and place greater confidence in their own ability to affect the world situation. This overestimation is usually accompanied by the expectation of favorable external changes and devalues the necessity of giving priority to development based on national efforts.

In sum, there has been a return to emphasizing structural elements, but this time

without neglecting financial equilibria.

LOOKING TOWARD THE FUTURE: A CONVERGENT FOCUS

With respect to those factors which can form a new focus for ideas and policies, new points of agreement have arisen, both at the national and the international level. To start with the former:

i. In Latin America, the necessity of articulating a conceptual standard which integrates short term adjustments with structural changes is recognized. There is a search for a *macrostructural* or *neostuctural* focus which also puts a premium on the design of specific policies. As mentioned before, an important weakness has been the segmentation between strategic, structural and sectoral analyses on the one hand and macroeconomic and financial approaches on the other. Maintaining this dichotomy weakens the capacity for response which is made more problematical by the difficulties experienced in separating short and medium term effects. At the same time, it is necessary to adopt conceptual frameworks which are more specific and disaggregated and which distinguish between different national realities. A policy of structural change cannot ignore microeconomic aspects, as has occurred until now. Greater attention must be focused at the level of the firm which promotes investment, competitiveness and technological progress.

ii. There is an appreciation of a convergence in Latin America towards a more sophisticated focus which recognizes nuances and attempts to gather the positive elements gained from distinct experiences. False dilemmas are rejected. For example, there is wider acceptance that:

a. There does not exist a dichotomy between planning and the market, for both must be combined. It is necessary to reinforce planning, but in ways which are decentralized, concentrating on strategic areas. There is an equal rejection of the automatic nature of the market, for its inefficiency in assigning resources, distributing income and preserving autonomy. But, at the same time, there is recognition of the important role of the market in decentralizing decision-making.

b. There does not exist any antagonism between agricultural development and industrialization, as there was in the past. Both processes are complementary and the modernization of agriculture assumes the development of agro-industry and a greater integration of both sectors. In sum there is a tendency to abandon models which are global and closed in order to move on to a more flexible perspective which is oriented

to the formulation of policies that enlarge the scope for action.

iii. A theme which has been specially highlighted among economists is the link between style of development and political and institutional factors. A renewed emphasis is placed on democracy, participation, decentralization of power, social factors, behavior, values and attitudes. Much attention is also given to the state, with discussions revolving around the redefinition of its functions. The role of the state is stimulating cooperation between social sectors and supporting social organization is highlighted. A new role is assigned to it: to create scope for political and social consensus.

iv. Small and medium-sized firms are viewed from a new perspective, as elements capable of providing flexibility in the economic system and as innovative, creating employment and participating in decentralization.

Increasing convergence of ideas is visible at the international level as well. The technological revolution and the underlying transformation of the world economy, especially in the advanced countries, is a theme which permeates the current Latin American debate and generates more perplexity than clarity as to which way to turn. One detects a persistent worry regarding the risks of greater subordination to the international economy and the potential sharpening of divisions between economic forces would bring more disintegration instead of greater national articulation.

At the same time, scepticism exists today regarding the capacity of the *locomotive* of the North. It is no longer capable of sustaining international commerce as before, much less primary commodities whose real prices have suffered a substantial drop. The apparent *hegemonic recuperation* of the nucleus United States-Europe-Japan is recognized. The resprouting of military bipolarity and the fading of the economic multipolarity which characterized the decade of the 1970s and appeared to augur greater maneuverability for the region, have given rise to serious apprehensions. Both tendencies have negative effects and Latin America must look for an attenuation of the East-West bipolarity as well as for greater economic diversification within the region, and must look toward Europe and Japan as well as to other countries of the South.

MAIN CRITERIA FOR A NEW STRATEGY

Two fundamental criteria have been proposed in the Latin American debate:

i. The magnitude of international challenges requires formulae for consensus and the cooperation of social sectors, as well as the formation of social alliances capable

of sustaining broadly based work in the long term. Polarization and the exacerbation of social conflict will block the possibility of simultaneously undertaking the satisfaction of basic needs and increasing national savings. Various forms of social pacts will be needed for reconciling both objectives. Similarly, the magnitude of the external restriction makes it necessary to modify the international economic order and to improve the Latin American capacity for negotiation. Both goals also require a consolidated internal front. The idea of a *national project* that expresses the interests of the majority sectors emerges as a necessary condition for focusing available energy and unleashing new vitality. In order to achieve this, democratic political systems today offer appropriate standards for articulating the cooperation of different social sectors.

ii. Jointly with the appreciation of political-social and institutional factors, Latin American thought emphasizes the priority of endogenous development. The necessity of strengthening the productive base, of advancing Latin American technology, has acquired primacy. International intervention centered on the exportation of natural resources, without emphasizing Latin American productive forces, will only lead to dependency that will increase structural heterogeneity rather than reduce it. In order to advance in this direction, revitalization of Latin American cooperation is urgent. Trade, financial relations, technological research and industrial development must be secured through a flexible policy of regional integration. This deals with criteria of economic articulation, of acquiring a productive base capable of achieving growth and of adapting itself to technological change, while incorporating the bulk of the population, in order to counteract the tendency toward segmentation and the growth of the informal sectors, underemployment and the unemployed.

In order for these proposals to bear fruit, in the midst of an acute external financial crisis, it is necessary to modify the type of financial arrangements imposed by the IMF, removing the new conditions attached to the Baker Plan and the new *structural adjustment* credits of the World Bank. Instead, a suitable structural perspective that covers a long period must be adopted. This objective gains priority since the financial inflows of the past will not return. In order to reduce dependency and vulnerability, productive capacity in the region needs to be expanded, the balance between agriculture and industry needs to be improved, and more ties between Latin American countries must be created.

In sum, if these propositions have something in common, it is the search for greater economic articulation in and between countries and for more social cohesiveness.

INSUFFICIENCIES AND WEAK POINTS

To achieve greater cohesion and strength Latin American thinking must still overcome numerous inadequacies, which can be illustrated by the following:

i. In order to obtain political support for a new development strategy, it is necessary to identify specific modes for creating consensus between social sectors. Emphasis should be placed on developing social alliances that are characterized by deeply felt shared values and objectives. Increasing savings and investment, improving income distribution and the satisfaction of basic needs, participating in technological research and raising international competitiveness requires social accords and political commitments that involve the majority in national projects. In order to identify the *how*, it is imperative to incorporate the experience of political actors, their perceptions and tools. Innovative forms of political involvement and participation must be carefully studied on an actor by actor basis. A national commitment to overcoming the economic challenges is essential. This commitment, in turn, requires a new form of political and social consensus which defines a single common direction. Political agreement will be transient if it is not backed by an economic consensus on short and medium term objectives.

ii. Security considerations are absent in the analyses of ECLA and of economists in general. This absence can be perceived on three levels:

a. In the first place, it is evident that potential border conflicts among countries in the region constitute a factor limiting economic cooperation in Latin America. These potential conflicts not only restrict the possibility of a closer inter-relationship; they also stimulate military expenditures which absorb scarce resources, exacerbating the current financial crisis. Despite this, Latin American economic thought has not incorporated these elements and has little or nothing to say about military expenditures.

b. In the second place, security problems also express themselves at the internal level. The doctrine of "national security", applied for many years in the Southern Cone, leads to violations of human rights and profound divisions arising between citizens of the same country. It has broken the basis of national unity and cooperation and has created an obstacle to consensus.

c. In the third place, it is frequently appreciated that in several countries the armed forces have accepted and implemented economic policies that run against autonomous endogenous development, on the contrary, enclosing themselves in the logic of unrestrained liberalism and dependency. The posture of the armed forces in the economic field is critical since they can obstruct or facilitate consensus regarding new objectives. On this level, one also observes a shortcoming in not making explicit the ties between the armed forces, their activities and ideas concerning economic

development, and the notions put forth by civilian governments.

A stable strategy demands that military thought adopt the concept of development as endogenous, more autonomous and egalitarian.

iv. In relation to the world economy, the economic dynamic of the advanced countries is insufficiently understood, and adequate attention has not been placed on identifying industrial and technological policies which would help Latin America to reduce the enormous technological back-lag. There are few analyses about the new linkages, actual and potential, between the North and the South and between countries of the North. The significance of South-South relations, specially within Latin America, is underestimated. New modes need to be identified that will make the process of integration a dynamic one. The commitment and involvement of the principal economic actors, governments, local powers, public and private enterprises, research centers, etc. is lacking.

THE EXISTENCE OF A COUNTER-MODEL

The primacy of a new development scheme is not assured. Important forces exist which act and will continue to act on the basis of a counter-model. Inside each country groups of interests and intellectuals exist which promote the idea of a finance-export model in the context of liberalization. Such a scheme could lead to a subordinate position in the world economy. The dynamic pole - finance and exports - is incapable of bearing up the rest of the economy and in the end heterogeneity and dependency will increase.

Outside Latin America there is also talk of *structural adjustment* to overcome the crisis. This label hides an approach that superimposes the known conditions of the World Bank. The *Baker Plan* also contains new conditions, including privatization, the reduction of the presence of the state, the creation of an *atmosphere* favorable to foreign investment and transnational corporations, and the liberalization of finance, external trade, internal prices and labor markets. In turn, it is anticipated that Latin America continue to make a net transfer of resources to the exterior after 1990. This counter-model, with its disarticulating and negative effects for the consolidation of democracy may obstruct Latin America's transition from exhausted economic policies.

The current task is not easy and requires both a major intellectual effort and an even more relevant political effort so that this thinking will provide a viable basis for the principal national actors of Latin America.

CONCLUSION

Undoubtedly the *liberal shock* suffered by Latin American economic thought has left deep marks.¹⁰

The developed countries aspire to implant a liberal global order and forcibly insert the Third World into this order. There are enormous economic and ideological pressures to make developing countries adopt internal policies that guide them toward the liberalization of their external relations. A sensation of impotence and uncertainty has spread through Latin America.

The consolidation of new thinking is a requisite for confronting the crisis and for unfolding new development trends. In themselves ideas are power. Latin America must advance certain concepts that prepare it determinedly to seek the solution to its problems in a medium term perspective.

The elements are present. The task is to understand them, articulate them and transform them into a substantial part of the new body of thought of the principal Latin American social and political actors. These ideas must make themselves part of the fabric of society, constituting themselves as part of the region's *common sense*. Only then will they be capable of harnessing social, economic and political energies in order to force the counter-model to yield and to rebuild national economies.

NOTES

1. Fishlow, (1985).
2. Ayza et al., (1975), pp. 24-26, 37-48, 133-134.
3. Inter-American Development Bank, (1982), p. 4.
4. CEPAL, (1980), p. 20.
5. IDB, (1982).
6. CEPAL, (1985), p. 11, Table 3.
7. *Ibid.*, p. 12, Table 4.
8. *Ibid.*, p. 17, Table 14.
9. In a meeting of experts sponsored by CEPAL, in May 1985, an abundant interchange of ideas took place concerning *Crisis and Development of Latin America and the Caribbean*. In particular, see the following works: CEPAL, *Crisis y desarrollo: presente y futuro de América Latina, Vol I, Transformación y Crisis*, Santiago, April 1985; Vol. II, *El desencadenamiento de la crisis y la reacción de la política económica*, Santiago, April 1985; Vol. III, *Desafíos i opciones para el desarrollo futuro*, Santiago, April 1985. CEPAL, *Informe de la Reunión de Expertos sobre Crisis y Desarrollo de América Latina*, Santiago, June 1985. Together with these works, diverse authors have elaborated studies about particular themes. Some of these were published in *Revista de CEPAL*, No. 26, August 1985. Numerous papers were also collected in *Revista de CEPAL*, No. 27, December 1985.
10. Iglesias, (1985), p. 61.

REFERENCES

- Ayza, Juan; Fichet, Gerard and González, Norberto (1975), *América Latina: Integración económica y sustitución de importaciones*. Mexico.
- CEPAL (1980), *Estudio económico de América Latina 1979*, Santiago.
- CEPAL (1985), *Crisis y desarrollo en América Latina y el Caribe*. Santiago.
- Fishlow, Albert (1985), "El estado de la ciencia económica en América Latina" in: Inter American Development Bank, Informe 1985, Washington, D.C.
- Iglesias, Enrique (1985), "Crisis y desarrollo de América Latina y el Caribe" in Revista de CEPAL, No. 26.
- Inter American Development Bank (1982), *Progreso económico y social de América Latina. Informe 1980-81*, Washington, D.C.