



THE HISTORY AND CHALLENGES OF LATIN AMERICAN DEVELOPMENT

JOSÉ ANTONIO OCAMPO



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ECLAC



The history and challenges of Latin American development

José Antonio Ocampo



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Foreword

At times of great uncertainty in the global economy, it becomes all the more important to reflect upon dilemmas and opportunities and the elements of our history that colour the way we visualize the future.

This is the spirit that moved us to publish the lecture given by José Antonio Ocampo, former Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC) and currently Professor at Columbia University, at a seminar held in July 2012, to commemorate the fiftieth anniversary of the Latin American and Caribbean Institute for Economic and Social Planning (ILPES).

ILPES was founded as a regional response to political demands for government plans and programmes to promote economic development. Raúl Prebisch brought together political wills from within the region and beyond to professionalize and formalize development planning in Latin America and the Caribbean.

Since then, ILPES has faithfully carried out the mission commended to it. Of course, the Institute suffered when public planning was unnecessarily and mistakenly thrown aside to unleash the market forces that by themselves were supposed to generate development. But ILPES held to its principles and updated its skills and has found new arenas in today's political, economic and social context, amid a resurgence of interest in planning and the role of the State.

ECLAC is proposing a real road towards growth with equality and environmental sustainability: structural change, a break-away from the economic paradigm that has prevailed over the past three decades.

To speak of equality means spreading capacity-building, technological progress, ample job opportunities and universal access to social benefits and protections throughout the production structure and weaving them into the very fabric of society. Employment with rights is the master key to eradicating inequality, closing gaps and mainstreaming perspectives of gender, ethnic and racial equity.

In essence, structural change for equality calls for making qualitative changes in the production structures of the countries in the region, to stimulate knowledge-intensive sectors and activities that can tap dynamic domestic and external demand and thus generate productivity gains and more and better jobs.

We hold that the key is to coordinate short-term macroeconomic policies with long-term industrial policies and redistributive social policies.

Environmental sustainability is one of the most important pillars of structural changes. It is therefore essential to take ownership of the new paradigms of the technology revolution in production and establish a new, sustainable pattern of sectoral diversification.

We urge the development of a proactive State working to stimulate synergies between macroeconomic policies and industrial and social policies. This means supporting small and medium-sized enterprises, taking a leap in research and development and tapping new technologies to foster clean production. It also means strengthening education and training.

Nowadays, planning is about building a long-term vision of the State in close coordination with civil society and the organized private sector. This is a collective national effort revolving around the complex but essential State-market-society trilogy.

Public planning today is a matter of containing and aligning market forces to contribute to societal objectives for development, equality and structural change, with an active State coordinating these long-run efforts.

As Ocampo so rightly teaches us, in a highly uncertain world, planning represents a means of developing strategic vision and direction.

Alicia Bárcena

Executive Secretary

Economic Commission for

Latin America and the Caribbean (ECLAC)

Prologue

On the occasion of fiftieth anniversary of the Latin American and Caribbean Institute for Economic and Social Planning (ILPES), we are pleased to offer our readers the lecture given by José Antonio Ocampo, formerly National Planning Director of Colombia and Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC) and currently Professor at Columbia University.

José Antonio Ocampo refers to the history of Latin American and Caribbean development, which is at the very heart of ILPES, as a promoter and broadcaster of ECLAC thinking and ideas, and as a provider of training for thousands of technical staff in public administrations.

By the 1950s, ECLAC was already engaged in work to strengthen the management capacities of the Latin American governments. Raúl Prebisch, Executive Secretary of ECLAC at the time, interpreted the growing and diversified demand in those areas, and spearheaded the creation of a body that would be able to provide an organic response: ILPES.

The opening of the economic development training course in Santiago, on 2 July 1962, marked the birth of the Institute. That course, in a manner of speaking, continued the programme which ECLAC had been running since a decade earlier to support governments in planning and public governance. As part of that programme, ECLAC provided training, consultancy services and research aimed at boosting national and subnational efforts to improve the quality of public policies and strengthen institutional development.

But 1962 was not a year like any other. Not only was ILPES founded, but it could be said that planning took off in Latin America, as planning

ministries or bodies were created in countries including Argentina, Brazil, Colombia, Costa Rica, Cuba, El Salvador, Mexico, Paraguay and Venezuela.

In 1961 the Charter of Punta del Este establishing the Alliance for Progress had been signed. This was a milestone in the emergence of planning and represented the start of a continental agreement to promote stabilizing and inclusive development, industrialization and regional cooperation and integration (which are still priorities today), with a State legitimized by its coordination of a two-decade-long growth run averaging 6% per year (5.5% in the 1960s and 5.8% in the 1970s).

ILPES has worked steadily over five decades, maintaining its key lines of thought and the spirit in which it was created, supporting governments in human-capacity- and institution-building, adapting to the changing needs of development in the countries, responding to emerging demands in different areas of planning and providing a forum for learning, reflection, analysis and proposals on the problems of Latin American and Caribbean development. Thousands of students from many countries have trod ILPES classrooms and have taken home the imprint of ECLAC thinking and practice. Many of them occupy or have occupied senior positions in their governments and other bodies. ILPES is, was and shall be a forum for learning, reflection and analysis on Latin American and Caribbean planning and development, open to everyone.

The fiftieth anniversary of the foundation of the Institute is not only a source of pride; it also represents a challenge and the renewal of a commitment to Latin America and the Caribbean. The region and the world have changed in these five decades; the countries have progressed in their development, but there is still unfinished business for ECLAC and ILPES. The countries in the region are considering and discussing the legacy of the development scheme followed over the past two decades, the formula for reducing inequalities and what appears to be renewed interest in planning and inclusive development policies, all based on objectives of equality in all its dimensions, including territorial equality, one of our main concerns at ILPES. This territorial dimension is our concern, because it is here that inequalities of income, productivity and access to education and health services are manifested and sharpened and solutions to them are sought.

ILPES engages actively with the countries on this new framework and approach to planning. National development agencies are increasingly participatory in their make-up and activities, reflecting the progress of democracy in the region. The Institute aims to be a regional centre of excellence, generating and disseminating knowledge and proposals on the role of the State in development processes and in the improvement of planning and public management.

We share the satisfaction of the Institute's first 50 years and pay tribute to the men and women who have served the region with enthusiasm, professionalism and dedication, to experts and consultants in ECLAC and other agencies who have supported their work, and to the governments, our key partners in this endeavour.

Those of us who have the honour and the historic opportunity to have belonged to ILPES in its first 50 years are called upon to join in expressing well-deserved acknowledgement of the Institute, as well as to share in it, and to restate our commitment to the region's development.

Jorge Máttar

Chief, Latin American and Caribbean
Institute for Economic and
Social Planning (ILPES)

Introduction

*José Antonio Ocampo**

The fiftieth anniversary of the Latin American and Caribbean Institute for Economic and Social Planning (ILPES) is a source of immense pride. For half a century, ILPES has helped to train ranks of professionals in the region in different spheres of public policy and management, and has provided research in planning, public finances and regional development. Through its current Chief, Jorge Máttar, I would like to commend all the chiefs and staff members who have played a part in 50 successful years of this honourable branch of our beloved Economic Commission for Latin America and the Caribbean (ECLAC).

This is a good occasion to examine the history of Latin America development and, on that basis, reflect upon the challenges and options that lie before the region. Taking as a starting point the considerations contained in a recent economic history of Latin America written with Luis Bértola, *The*

* Professor at the School of International and Public Affairs and fellow of the Committee on Global Thought at Columbia University. Formerly United Nations Under-Secretary General for Economic and Social Affairs; Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC); and Minister of Finance and Public Credit of Colombia. This is a written version of a lecture given by the author at the commemoration of the fiftieth anniversary of ILPES. Therefore, it does not adhere to academic format and contains no bibliographical references.

Economic Development of Latin America since Independence,¹ I will offer a few reflections on the current situation and what it tells us about the world that awaits us, and set forth some brief conclusions about the Latin American development agenda.

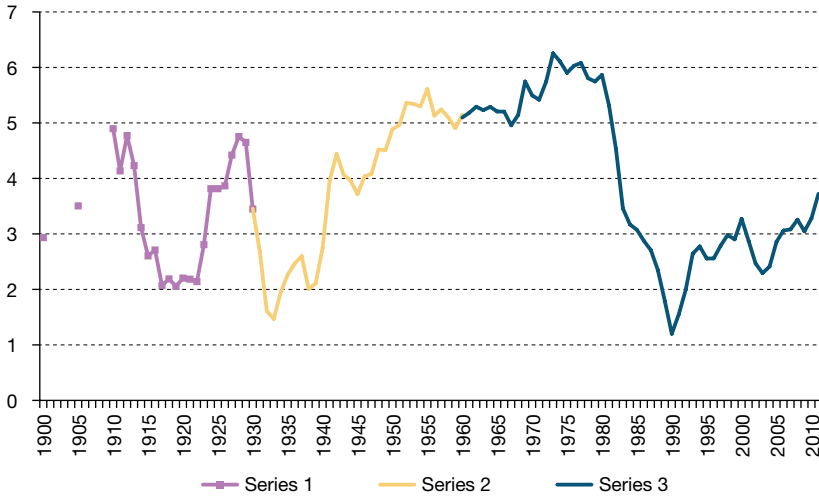
¹ This book was published in 2012 by Oxford University Press (in English) and will be published in Spanish in 2013 by Fondo de Cultura Económica. The Ibero-American Secretariat (SEGIB) published an earlier version in 2010 under the title *Desarrollo, vaivenes y desigualdad: Una historia económica de América Latina desde la independencia*. The first section draws heavily on the analysis contained in that book, especially from chapter 6.

A. The historical legacy

A brief look at long-term trends in Latin America shows that the region made its greatest strides in economic development during the period of State-led industrialization.² This is reflected in figure 1, which shows economic growth in moving averages for particular decades. The annual growth rates of over 5% and 6% posted towards the end of the period had been achieved only fleetingly during the previous development phase, in which growth was driven by commodity exports, especially in the decade before the First World War and in the 1920s. Conversely, growth rates following the economic reforms, which were implemented precisely to hasten economic growth, have been much lower, at barely 4% per year over the past decade. Per capita GDP growth was reduced during the State-led industrialization period by explosive population growth, but benefited from more recent population trends, thanks to the demographic dividend (i.e., the fall in dependency rates).

² We prefer this term to “import substitution industrialization”, which captures only one—and not necessarily the most important—element of this period of development. In the ECLAC terminology, State-led industrialization has also been termed “development from within”.

Figure 1
LATIN AMERICA: 10-YEAR ECONOMIC GROWTH RATES, 1900-2010
(Annual percentage growth rates, based on moving 10-year averages ending in the year indicated in the graph)



Source: Luis Bértola and José Antonio Ocampo, *El desarrollo económico de América Latina desde la independencia*, Mexico, Fondo de Cultura Económica, 2013, in press.

Note: Series 1 includes Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Peru and Uruguay; the first two observations do not include Cuba or Ecuador. Series 2 includes all the countries except the Dominican Republic, Panama, Paraguay and the Plurinational State of Bolivia. Series 3 includes all the countries except Cuba.

During the phase of commodity-export-led growth, Latin America was —along with central and southern Europe— one of the regions on the periphery of the world economy that was most successful in joining in the wave of economic growth, which enabled it to become part of a sort of global “middle class”. As a result, between 1870 and 1929, Latin America’s share in global GDP rose from 2.6% to 5.2% and the region’s per capita growth rate topped the world average.³ During the period of State-led industrialization, the Latin American economy continued to grow at above-average rates and to expand its share of world production, which rose to 9.5% by 1980. Nonetheless, during neither of these periods did it make any significant progress in closing the gap that was already separating it from the developed world in 1870, and, during the industrialized countries’ “golden age” (1950-1973), it fell behind Western Europe. During the last decade of the 1980s, the region’s share in global GDP fell back to 8.0% and it has continued to slip gradually ever since.

³ See table 1.1 in Bértola and Ocampo (2013).

The most recent development period has thus brought a decline, this time in relation to the world average and, especially, to developing Asia. Since the first and third of these stages coincided with modern globalization processes, Latin America was evidently a winner during the first wave of globalization but was unable to take advantage of the second, despite its relatively good export performance, ability to attract capital and the fact that major firms in the region (those known as trans-Latins) have performed successfully in the region and beyond.

Development progressed unequally within the region, particularly during the commodity-export-led development period. By the First World War, the countries of the Southern Cone and, to a lesser extent, Cuba, had increased their edge over the rest of the region. From that point on, there was a tendency toward convergence in regional development levels, partly because the leaders began to fall back and partly because other countries became more successful. The latter case was true especially for the two largest countries (Brazil and Mexico) but also of a few medium-sized countries (Bolivarian Republic of Venezuela and Colombia) and small ones (Costa Rica, Ecuador and Panama, in particular). Nevertheless, there were a few countries (Nicaragua and Plurinational State of Bolivia, in particular) that were left behind. This process of regional convergence came to a halt during the lost decade of the 1980s, however, and in more recent decades has given way to a growing divergence once again.

The economic growth of certain countries shows another strong pattern: the Latin American countries tend to grow rapidly for extended periods of time during which they narrow the income gap separating them from industrialized countries, but these growth spurts then give way to —also lengthy— periods during which this gap widens again. This process can be described as one of truncated convergence. Cuba is perhaps the first and most prominent example: after having been one of the leading export success stories in the nineteenth century and early twentieth century, its per capita income flattened out almost completely from around 1915 onwards. Much the same thing occurred in the Southern Cone, which surged ahead until the First World War but then lost ground. This was particularly the case in Argentina, which was one of the greatest development success stories during the first wave of globalization. Following in its footsteps was Venezuela, which was Latin America's star performer from the 1920s to the 1960s, thanks to its oil boom and its ability to spread the benefits reaped from that boom, although this period was followed by a relative decline. Brazil and Mexico, the prime success stories of the period of State-led industrialization, followed this same path soon after.

In the absence of "growth miracles", but also of major crises, Colombia seems to have found the key to maintaining a slow but steady development path.

All this has been associated with the Latin American economies' great external vulnerability and the resulting volatility of economic growth. The overriding factor throughout the region's economic history has been dependency on commodities, whose prices have been highly volatile and especially so during the First World War, the Great Depression and since the mid-1970s. This situation has been compounded by the even greater volatility associated with the countries' highly irregular and procyclical access to external financing, which has been at the root of some of the region's most extreme business cycles: the boom of the second half of the 1920s, which was followed by the deep downturn and the defaults of almost all the debtor countries in the 1930s; the boom of the second half of the 1970s, which gave way to the lost decade of the 1980s; the economic surge of 1991-1997, which was cut short when external financing dried up after the Asian crisis of 1997 and the Russian crisis of 1998, whose effects lasted half a decade; and the boom which preceded the global financial crisis of 2008 and the sharp contraction that followed, although this time it was much shorter, as external financing began to pick up again in mid-2009.

One of the features of the region's external vulnerability was its sharply volatile economic growth during the phase of market reforms. This is clear when we compare the unstable growth rates for the period 1990-2011 with those 1950-1980 (see table 1). The greater volatility reflects fluctuations in external financing and the terms of trade generated by commodity price cycles, and by the procyclical tendency of macroeconomic policy, which has only recently begun to be reverted, and then only partially. One of the outcomes of this is that although some progress has been made towards achieving price stability and avoiding financial crises, less has been achieved in another area of macroeconomic stability, one which is in fact often overlooked when the term is used: stability of economic growth rates.

Table 1
LATIN AMERICA: GDP GROWTH AND VOLATILITY, 1950-1980 AND 1990-2011^a
(Percentages)

Weighted average	Average growth	Standard deviation	Coefficient of variation
1950-1980	5.5	1.7	0.31
1990-2011	3.3	2.4	0.71
Simple average			
1950-1980	5.0	1.1	0.21
1990-2011	4.0	2.0	0.50

Source: Prepared by the author, on the basis of figures provided by the Economic Commission for Latin America and the Caribbean (ECLAC).

^a Does not include Cuba.

Much of what has been discussed here makes it clear that the “Black Legend” about the period of State-led industrialization is not founded upon a careful observation of history. This stage of development was not only one of prolonged, rapid and stable growth, but also a time, as we will see, of social progress. It was even, at least since the 1960s (and before, in the case of the smaller economies), a stage of export growth and diversification, when the classic model of development from within gave way to a mixed model that combined import substitution with export promotion and regional integration. It would be an illusion, however, to think that that the region could return to a development pattern typical of this period, whose origins were linked to the collapse of the first wave of globalization more than anything else. The idea would therefore be anachronistic during the second wave of globalization that we are experiencing today.

The model had flaws, as well, with the main one being its inability to build a solid technological base. That inability was deeply entrenched, as it was rooted in the lag in industrial development that occurred during the first wave of globalization, cumulative lags in education and the even greater backwardness of the region in terms of the construction of a scientific-technological base of its own. Starting in the mid-1970s, this problem was compounded by the reversal of the industrialization process when the region was still at an early stage in its development. This turnaround was associated with the slowing of the upward trend in productivity levels which most of the Latin American economies had experienced hitherto.

Contrary to market reformers’ expectations, although Latin America increased its integration into the world economy (and, in many ways, successfully so), this coincided with a downturn in productivity that began during the lost decade and continued until the first half of the 2000s. This situation did not stop leading enterprises from making strong productivity gains, leading to the increasing degree of dualism or structural heterogeneity that came to characterize the first phase of the reform effort, with world-class companies (including the transnationals operating in the region and a number of trans-Latins) existing alongside a growing mass of small businesses and various forms of informal employment. Consequently, the adverse trend in total factor productivity did not begin to recede until the boom of 2003-2007, when informal employment indicators began to fall steadily.

Until the early 1970s, a tendency towards high inflation was absent except in the Southern Cone and Brazil, and most countries did not exhibit a lack of fiscal discipline until the second half of that decade, when large flows of external financing began to pour into the region. Thus, runaway inflation was more an effect than a cause of the external debt crisis. The inroads made in these two areas are attributable, of course, to the countries’ successful management of macroeconomic variables during the last two decades. This situation represents a significant and

unprecedented achievement for Brazil and the countries of the Southern Cone and a return to what had been the normal state of affairs up to the 1960s for the rest of the countries.

Social progress was slower in coming. The lamentable state of education in the early twentieth century, even in countries at the forefront of the region's development drive, attests to this. Human development indicators began to improve about a third of the way into the twentieth century, with the biggest advances being registered throughout most of the region during the era of State-led industrialization. Progress, as reflected in these indicators relative to those of the industrialized world, stalled during the last two decades of the century, although advances continued to be made in education. Steady progress in narrowing the human development gap between the region and developed countries resumed in the first decade of the twenty-first century.

The few available studies on poverty reduction indicate that, in the twentieth century, the greatest progress was also made during the period of State-led industrialization. Starting in 1980, however, this favourable trend was followed, not by a "lost decade", but by an entire "lost quarter-century" in terms of poverty reduction. One of the most remarkable developments in recent times has been the sharp reduction in poverty achieved in 2003-2008, which was coupled with an improvement in income distribution in many countries.

The historical trends in income distribution and inequality in the region are complex and highly variable, and they do not follow any one pattern. The colonial legacy of highly segmented economic and social structures continues, of course, to weigh upon the region's societies, but the impact of that legacy has been influenced by other factors that have had varying effects on different countries in the region. The factors that had the most widespread adverse effects on distribution were an outgrowth of the first wave of globalization, the 1980s debt crisis and the economic liberalization effort of the late twentieth century. For countries that had large labour surpluses (essentially all of them apart from the nations of the Southern Cone), the pressure that those surpluses generated during much of the twentieth century also had negative effects in terms of distribution. The situation was further compounded by the adverse impact of a long list of military dictatorships.

Positive forces have also been at work, however. In the final analysis, the greatest steps forward in terms of the promotion of social equality were clearly the abolition of slavery, which was a long time in coming in some countries (Brazil and Cuba), and the lengthier process of erosion of the various forms of rural servitude which were quite prevalent even in the early twentieth century in most Latin American countries and continued to exert an influence for far longer. The urbanization process did a great deal to open up new opportunities for people who had been subject to the strict social segmentation characteristic

of the region's rural areas. Advances in education, which were also a long time in coming, helped to create a more level playing field and were arguably the main driving force behind the improvement in income distribution seen in the early twenty-first century. There is still a great deal of ground to cover in this respect, however, as is demonstrated by the shortcomings and inequalities characteristic of the quality of education currently available to the vast majority of Latin Americans. The massive influx of European migrants who headed for the Southern Cone had positive long-term distributional effects. One of the reasons for this was that these immigrants brought with them skills, knowledge and especially institutions (including trade unions) that helped to spread the benefits of development. Other countries in the region have also made institutional changes that ushered in greater equity, such as those brought about in Costa Rica in the mid-twentieth century and in Cuba in the wake of its revolution.

These varying forces converged in different ways from one country to the next, and there is not enough information to determine exactly what their net effect was, but we can discern two major cycles. The first started with a deterioration in income distribution that lasted up to the start of the twentieth century or even later in economies that had extensive labour surpluses. This was followed by an improvement in distribution, which occurred earlier (starting in the 1920s) in the Southern Cone thanks to the institutional forces mentioned above, and later on (in the 1960s or 1970s) in other countries (Colombia, Costa Rica, Mexico and the Bolivarian Republic of Venezuela), although there were some countries, such as Brazil, where this failed to occur at all. The second cycle opened with another deterioration in distribution that once again began in the Southern Cone but then spread across the region in the late twentieth century as the lost decade took shape and market reforms were introduced. About two thirds of the countries then witnessed an improvement in distribution in the first decade of the twenty-first century. From a long-term perspective, Latin America's structurally high degree of inequality in income distribution may actually be worse today than it was before the region experienced its first burst of economic growth in the closing decades of the nineteenth century.

Individual countries have taken quite different paths in terms of their institutional development (i.e., the organization of the State and, more generally, society in a way that will make it possible for them to supply public goods). This is true even of countries that share a common border and that have followed similar development paths in other respects, with the only explanatory factor being the varying political histories of different countries. One common denominator (with the partial exception of no more than a handful countries) is that economic liberalism was not synchronized with political liberalism, which did not truly take hold until the last two decades of the twentieth century (and, even so, has recently suffered a number of

setbacks). Another common denominator has been a tendency to embrace rentism—in the form of a reliance either on the earnings derived from natural resources or on the gains to be derived from maintaining a special relationship with the State.

As for the relationship existing between the State and the market, the greatest progress in terms of the development of State-run activities was made during the stage of State-led industrialization, but in many cases the associated institutions had begun to take shape during the preceding stage of commodity-export development. During the industrialization phase, the countries of the region (with the exception of Cuba and a few other nations that embarked on short-lived experiments with socialism) developed a mixed economic model similar to the model prevalent in Western Europe and were, accordingly, far less Statist than most of the developing countries of Asia and Africa—a fact that is often overlooked in the literature. This was also the classic era of development planning.

Economic liberalization led to a major redefinition of the relationship between the State and the market beginning in the 1970s in a few countries and in the mid-1980s in most of the rest. Nonetheless, this redefinition did allow public-sector banks and enterprises to survive in a majority of the countries and was associated with a significant increase in public social expenditure in all of them from 1990 on. In the course of this process, some State bodies (notably finance ministries and central banks) grew stronger, but others (planning agencies and those responsible for productive development policies for the industrial and agricultural sectors) were weakened or disappeared altogether. Oddly enough, the upturn in social expenditure has not been coupled with a similar trend in investment in infrastructure during the past few decades, and the region has built up a sizeable backlog in this respect as a result. In addition, as a consequence of the region's failure to devote greater attention to science and technology, it is lagging far behind the pace-setters in this field (East Asian countries and developed economies whose production structures rely on natural resources).

Disappointment with the results of market reforms prompted the region's policymakers to take a more positive view of the role of the State. This triggered the emergence of various leftist movements, but this shift was also evident in countries situated in the centre or even on the right of the political spectrum. As a result, Latin America began to figure at the forefront of a process that has come to encompass a broader range of countries around the world. Nonetheless, it is a process that has differed across countries and has clearly been flawed in some instances. One of the most glaring shortcomings has been a failure to devote more attention to productive development policies. Brazil is the only country that has launched a truly ambitious policy in this area, followed—at a great distance—by a few other countries.

B. What kind of world awaits us?

The degree of uncertainty now permeating the world economy is unquestionably one of the greatest in living memory and is comparable, in economic terms, only to the situation that existed during the Great Depression of the 1930s. The pivotal factor is the financial crisis that has shaken the United States and Western Europe. Because of the size of these economies, it has become known as the “global financial crisis”, but it might more properly be referred to as the North Atlantic financial crisis.

More recently, the crisis has deepened in Western Europe, and the financial crisis has started to become intertwined with fiscal crises in a number of countries in the eurozone that are posing a threat to the stability of the monetary union. Member countries’ commitment to the union may keep the euro from collapsing, but the slowness of their decision-making processes has already doomed Europe to losing a decade of growth or perhaps even more. The fundamental reason for this is the striking asymmetry exhibited by the adjustment processes now under way, inasmuch as the recessionary fiscal and wage adjustments being made in countries on the European periphery are not being counterbalanced by expansionary fiscal and wage policies in the relatively stronger euro-zone countries. The ongoing crisis in Greece continues to pose a threat to the eurozone, since an exit from the euro would lead to the contagion on a mass scale of other countries in the European periphery. If that should come to pass, it would be extremely difficult to keep the situation under control. A collapse of the euro—the world’s second-most important international reserve currency— would undoubtedly drag the world economy down into a recession just as—or

more— severe than the one triggered by the collapse of the United States investment bank Lehman Brothers in September 2008.

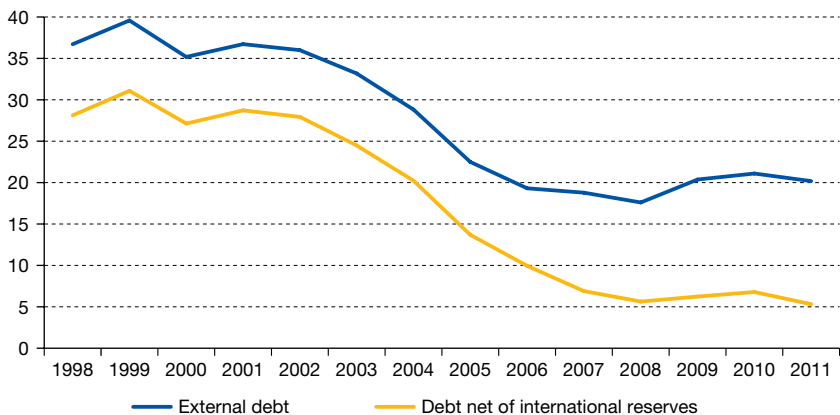
Meanwhile, the European Central Bank (ECB) has taken effective action to supply banks with liquidity, but its interventions in public bond markets have been spotty at best, and it has thus far given no sign of a clear determination to stabilize those markets. Perhaps rightly, ECB has taken the view that the stability mechanisms created by the member countries should be the ones to take on the job of stabilizing public debt markets, but these mechanisms have not been given enough funding to enable them to do so. The situation is compounded by the slow pace of progress in carrying out a number of the tasks involved, such as the implementation of a common regulatory, oversight and resolution mechanism for the zone's banking systems (known as the "banking union") and the introduction of stricter fiscal rules (incorrectly referred to as a "fiscal union", since this mechanism will not include other components of a true fiscal union, such as a sizeable redistribution of public resources among the members). In the short run, as noted earlier, fiscal adjustments have deepened the recession.

In the United States, the relative weakness of the economic recovery, which is associated with the adjustments now being made in private-sector and, in particular, household balances, is converging with strident political confrontations that are blocking the way to sensible approaches for dealing with the deficit and public debt. The most immediate threat is the so-called "fiscal cliff" which was to become a reality in early 2013, when the automatic adjustments in public spending passed by Congress were to coincide with the expiration of the Bush Administration's tax cuts and of recent reductions in social security contributions. The Congressional Budget Office had estimated that this would give rise to an immediate fiscal adjustment equivalent to 5.1% of GDP, which would have tipped the economy into a recession in the first half of the year.

Be all this as it may, and notwithstanding the critical juncture and deep-running political divisions that it reflects, the economic recovery has been less erratic in the United States than it has been in Europe. Fiscal policymakers have taken a more reasonable countercyclical line and, most importantly, this has been coupled with a proactive stance on the part of the United States Federal Reserve, which has followed an expansionary monetary policy for half a decade now and appears to be set to remain on that course. The resulting reactivation in credit has been slow in coming, but corporate and consumer credit are now rebounding, although the same cannot yet be said of mortgages. This also indicates that, unlike Europe's financial system, that of the United States appears to have reached a position of relative stability.

Given the combined weaknesses of Western Europe and, to a lesser degree, of the United States (as well as Japan), the centre of the world economy (to use the famous paradigm devised by Raúl Prebisch, the founder of the Latin American and Caribbean Institute for Economic and Social Planning (ILPES)) is unlikely to be generating any major growth impulses in the near or even not-so-near future. This situation's impact on Latin America will be threefold. The migration of workers to the centre (mainly the United States and Spain) has ceased to be the positive force that once was, and this has had an adverse impact on the region and particularly on Ecuador and a number of small and medium-sized countries in Central America and the Caribbean. Capital flows dried up after the collapse of Lehman Brothers, but they soon bounced back and were affected only marginally by the European crisis. Consequently (barring a collapse of the eurozone, which would set off a global crisis that would engulf the region as well), they will have a much less negative effect than they had in the past. This is because of the sharp reduction that Latin America has made in its external debt over the past decade (see figure 2), which gives international investors an accurate picture of the region as a low-risk destination for capital (with the exception of a few countries where the political situation is perceived as placing them in a high-risk environment). In fact, in some cases in recent years, capital flows have been so large that they have outstripped some countries' absorption capacity.

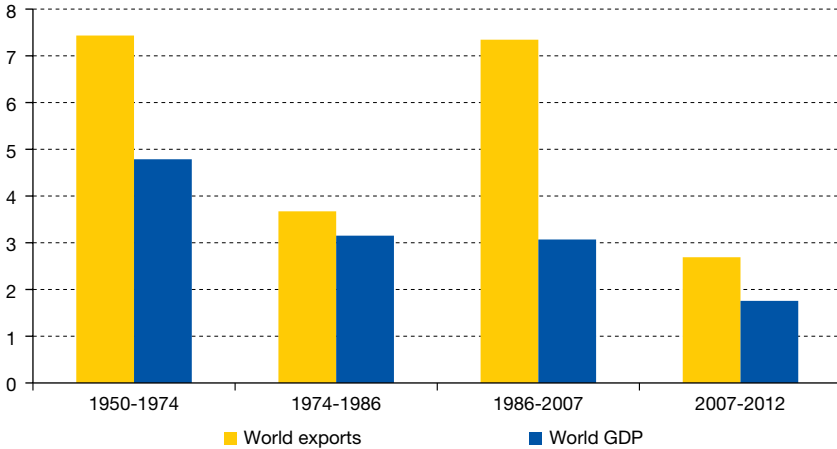
Figure 2
LATIN AMERICA: EXTERNAL DEBT, 1998-2011
(Percentages of GDP at 2000 exchange rates)



Source: Prepared by the author, on the basis of figures provided by the Economic Commission for Latin America and the Caribbean (ECLAC).

The main and most widespread consequences for the region will be associated with the evolution of international trade. The chief problem is that the booms in international trade seen between 1950 and 1974 and between 1986 and 2007 have come to an end. The growth of trade has fallen off sharply since 2007, not only because the world economy’s growth has slowed, but also because the elasticity of the expansion of trade to the growth of world GDP is lower than it used to be (1.5% in recent years, compared to 2.4% during the 1986-2007 boom). This is a critical situation because the Latin American countries have wagered everything on the development of exports, as well as using a fairly passive strategy and putting little emphasis on the technology content of their export basket. Thus, the countries’ success in boosting the growth of their export activity (which has, in any case, yielded only partial results in terms of fuelling economic growth and raising productivity) has been made possible by international trade conditions that will not be in evidence in the coming years.

Figure 3
WORLD: TRADE AND GDP GROWTH, 1950-2012
(Percentages)



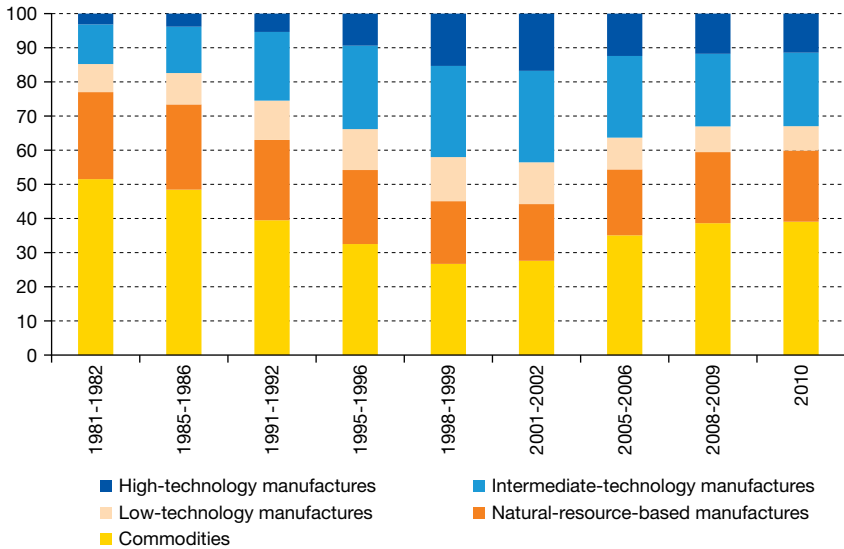
Source: Prepared by the author, on the basis of figures provided by the United Nations up to 2007 and by the International Monetary Fund (IMF) for 2007-2012.

Note: GDP estimated at market prices.

Latin America’s growing dependence on its exports of natural resources is another problem (see figure 4). In the short term, this has been beneficial for the region’s commodity exporters, thanks to the presence of a super-cycle of high commodity prices, especially for mining and energy

products.⁴ It is highly probable that this super-cycle will come to an end in the near future, however, especially if the Chinese economy, which has been driving the upswing in prices, enters into a sharper slowdown than has been foreseen.

Figure 4
LATIN AMERICA: COMPOSITION OF EXPORTS, 1981-2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Can the periphery of the world economy make up for the sluggishness of the centre? On the one hand, the answer is “yes”, since the growth rate for developing countries has been nearly five percentage points higher than the rate for developed countries since 2003.⁵ On the other hand, however, developing countries’ growth continues to be highly sensitive to the cyclical pattern of growth in developed economies, as is attested to by the sharp slowdown triggered by the global financial crisis in 2008-2009 and again in 2012. Another consideration is the fact that developing countries’ rapid growth has been fuelled by the Chinese economy, which is subject to severe

⁴ See Bilge Erten and José Antonio Ocampo, “Super-cycles of commodity prices since the mid-nineteenth century”, *World Development*, Vol. 44, 2013, pp. 14-30.

⁵ A rate of 6.1% for developing countries versus a rate of 1.4% for developed countries in 2002-2012, according to United Nations estimates. In 1970-2000, the differential was less than two percentage points (4.7% for developing countries versus a rate of 3.0% for developed countries).

structural imbalances, including an excessive reliance on very high investment rates (nearly 50% of GDP), while, in contrast, private consumption levels are extremely low (around 35% of GDP). These factors are a reflection of a development model that involves large household-to-business transfers and that should gradually be phased out in order to make way for a model in which private consumption plays a more important role. Some economists believe that this overhaul of aggregate demand patterns can be accomplished only against the backdrop of a sharp slowdown in China's economy—not to the 8% rate indicated by most current projections, but perhaps to a rate as low as 5% or even less.

Trade between Latin America and China exhibits a striking structural imbalance as well, since the region's exports to China are primarily made up of just a handful of commodities (petroleum, copper, iron ore, soybeans and wood pulp), while China's exports to the region include a diversified range of manufactures with an increasingly technological content. This trade model has obviously sparked a boom in many South American economies, but it is not the one that would be most effective in galvanizing the region's production structure.

One of the most significant implications of these trends in the world economy is that, in the absence of a strong upswing in international trade, they place the countries' domestic markets in a stronger position to drive growth. This suggests that an invaluable opportunity may be opening up for the type of expanded domestic market that can be created through regional integration. As ECLAC has been pointing out for many decades now, one of the virtues of intraregional trade flows is that they involve more manufactured products and, generally speaking, manufactures having a greater technological content. South American integration processes are undergoing very difficult times, however. The Andean Community has been struggling for several years, and the problems it has been experiencing have now spread to MERCOSUR, where constraints affecting bilateral trade flows between its two largest members are a disturbing sign of a waning commitment to integration.

C. Rethinking the development agenda

Given this combination of historical legacies and foreseeable international scenarios, it is clear that we need to rethink Latin America's development patterns and strategies from the ground up. The advances that have already been made in such areas as macroeconomic stability and poverty reduction need to be consolidated and expanded upon. And, at the same time, an in-depth analysis of a number of other aspects of the situation is called for.

In the macroeconomic sphere, the inroads already made in terms of lowering inflation, attaining fiscal sustainability and shrinking the net external debt have to be consolidated. But it is also clear that a great deal more remains to be done in order to reduce Latin American economies' long-standing external vulnerability. Latin America's response to the 2008-2009 global crisis was successful in many respects: the countries were not overtaken by domestic financial or balance-of-payments crises, inflation did not spin out of control, and many countries were able to institute countercyclical policies, especially in connection with monetary and credit variables. The region was unable, however, to stave off a sharp initial contraction of GDP—in fact, one of the steepest in the developing world. What is more, the boom that preceded the recent global crisis and the return of capital flows and high commodity prices since mid-2009 have demonstrated that the region still has a great deal to learn when it comes to handling economic booms, particularly with regard to ways of halting cyclical currency appreciations (which are particularly harmful for economies that are seeking to expand their exports), keeping public spending down in times of abundance and, even more importantly, curbing the rapid expansion of credit and private expenditure during these periods.

The challenges to be faced in promoting the development of the production sector are even more formidable, but they must be overcome in order to speed economic growth. This area has been a problematic one for many Latin American countries during the market reform phase, especially with respect to productivity. The region's economic history and the more successful productive development efforts mounted by East Asian countries both indicate that high growth rates cannot be achieved simply by ensuring that the macroeconomic situation is sound and by specializing according to static comparative advantages. Proactive production sector strategies are also needed. This topic was intentionally left off the governments' agendas during the market reform phase, and no determined effort has been made to reverse this situation since then, except in Brazil. What is actually needed is a quantitative leap forward in the design of proactive technology policies, which is an area that was also largely ignored during the phase of State-led industrialization. This effort should go hand in hand with the consolidation of the advances made in education and the elimination of the shortcomings in the education system, especially in terms of quality and the linkage of what is taught with the demands associated with the effort to change the region's production patterns.

Given the projections of sluggish growth in international trade, it is all the more important to rethink the approach to be used for boosting competitiveness, improving the quality of the export basket and striking a balance between the domestic and external markets. There are three options to be considered here, and none of them rules out the others, so varying combinations of these courses of action could be adopted and tailored to the situation in each country. The first is a reorientation towards the domestic market. The positive effects of the social trends in evidence in the region are helping to galvanize the domestic market ("mass consumption markets" in the words of former President Lula da Silva). However, a strategy of that type can work only in Brazil and, to a much lesser extent, in some mid-sized countries. The second strategy—give greater weight to an "expanded domestic market" created by a genuine revitalization of integration processes—is therefore to be preferred. In order to use that strategy, however, it first becomes necessary to overcome the political constraints that have been weakening and, in some cases, actually sabotaging regional integration processes. The third strategy focuses on diversifying exports in two different ways: by working towards explicit benchmarks for improving the technological content of the export basket, and by working to expand the market for the region's exports to fast-growing Asian economies, particularly China. These two strategic courses of action are complementary, since one of the main challenges to be met is precisely that of improving the quality of the region's exports to that country.

In terms of social action, the main challenge is to pay off the debt to society represented by the striking inequalities inherited from the past.

The challenge here is not only to make the kinds of improvements that are reflected in human development indicators and to reduce poverty, but also to focus attention on inequality as such. It should be borne in mind that, in addition to being one of the regions with the most glaring inequalities in the world, Latin America's human development index is also skewed to an enormous degree by those same high levels of inequality. This stands out clearly upon close inspection of the inequality-adjusted human development indicators that the United Nations Development Programme (UNDP) has been publishing regularly since 2010. According to those indicators, Latin America slips much farther down the scale than other regions that have similar human development rankings (the transitional economies of Eastern Europe and Central Asia and the countries of Asia and the Pacific) because of its high levels of inequality in terms of not only income, but also access to education and health care.

The work to be done in this area deals with three basic aspects. The first is capacity-building, particularly —given the region's current stage of development— in the areas of access to secondary and higher education and in terms of the quality of the education made available to lower-income sectors. The second is the development of universal social protection systems. One of the priorities in this connection is to do away with the existing segmentation in service delivery and the resulting differences in the quality of services provided to the different social sectors. The third involves a greater fiscal redistribution effort, which can be channelled through both the tax system and public expenditure. In this respect, it is important to realize that, although differences do exist in pre-tax income distribution and public expenditure, one of the chief differences in terms of income distribution that sets Latin America apart from the developed countries of the Organisation for Economic Co-operation and Development (OECD) is precisely the extent of redistribution achieved via taxation.

In any event, the lessons of history tell us that the advances made in this area will not be long-lasting unless they are coupled with the necessary changes in technology and production. The key objective in this respect is the creation of high-quality jobs, with quality being defined in terms of skills, job stability and social security coverage. This is an area in which a great deal remains to be done in view of the substantial deterioration in one or more of the job-quality indicators that occurred in almost all the countries of the region between the outbreak of the debt crisis and the early years of the twenty-first century. This deterioration has been partially reversed since the start of the boom of 2003-2007, but much remains to be done. Action in this area should be closely tied in with the effort to improve the production structure and, in order for that to happen, high-quality job creation must be one of the basic objectives of production development policy.

In bringing this discussion to a close, some observations relating to planning are called for. In the presence of a great deal of uncertainty, planning provides a way of working towards a strategic vision and direction based on an analysis of probable scenarios and their possible impact on different countries. Its basic purpose is to help to guide the actions of public and private stakeholders, which is all the more important in an environment subject to the turbulence that we are witnessing today. By the same token, provision has to be made for modifying planning schemes in the light of experience as well as changes in the international environment. This approach should be pursued in a way that engages a range of social stakeholders. It should also be backstopped by the coordination of State action designed to achieve the strategic objectives that have been set out and to assess the performance of State agencies as they work towards those goals. These activities—forward planning, participation, coordination and evaluation—are the basic components of planning. And all these activities are part of the larger task of State institution-building and, most importantly, of the development of an administrative structure capable of helping society to provide goods and services that serve the collective interest within the State/market framework that each society shapes through its own particular democratic processes.

In order to achieve all this, the region needs to continue to be able to draw on the expertise provided by the Institute whose fiftieth anniversary we are celebrating today.

With the first decade of the twenty-first century behind them, Latin American and Caribbean countries are continuing to pursue and consolidate their strategies for sustained growth, inclusion and social well-being. The region has learned from its experience and draws on this now as it faces the challenges of an international climate of uncertainty and financial volatility.

The past, present and future of Latin American development has been the subject of numerous studies, theories and controversies. In this essay, prepared for the fiftieth anniversary of the foundation of the Latin American and Caribbean Institute for Economic and Social Planning (ILPES), José Antonio Ocampo traces the vicissitudes, achievements and challenges of the region's development, which, as in the rest of the world, has undergone major shifts in the past five decades. Future changes are expected to run even deeper and occur with even greater frequency.

Latin American macroeconomic policy was put to the test during the recent crisis and demonstrated its resilience, but weaknesses persist in the production system. Furthermore, the nature of the region's participation in the world economy still poses risks, and these are heightened, particularly in the case of South America, by the ongoing boom in raw materials and commodities. The challenge, therefore, remains to evolve towards stages of development in which income, employment, productivity, social and territorial gaps can all be narrowed.

Ocampo identifies the region's development challenges, and offers his thoughts on possible ways forward and on the public policy instruments that might be employed to pursue them. Without doubt, this requires a renewed State capable of redeeming the art of public policy, and of reclaiming planning as a powerful, modern tool for achieving development with equality.



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