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CONTENTS

A summary of the ECLAC proposal <i>Eugenio Lahera, Ernesto Ottone and Osvaldo Rosales</i>	7
Post-conflict peace-building: a challenge for the United Nations <i>Graciana del Castillo</i>	27
Decentralization and democracy: the new Latin American municipality <i>Eduardo Palma</i>	39
The political economy of protection after the Uruguay Round <i>José Tavares</i>	55
Trade policy and international linkages: a Latin American perspective <i>Marta Bekerman and Pablo Sirlin</i>	65
Capital movements and external financing <i>Benjamin Hopenhayn</i>	81
The impact of exchange-rate and trade policy on export performance in the 1980s <i>Graciela Moguillansky</i>	95
The present state and future prospects of the environment in Latin America and the Caribbean <i>Nicolo Gligo</i>	109
Youth expectations and rural development <i>Martine Dirven</i>	127
Transnational corporations and structural changes in industry in Argentina, Brazil, Chile and Mexico <i>Ricardo Bielschowsky and Giovanni Stumpo</i>	143
El Salvador: industrial policy, business attitudes and future prospects <i>Roberto Salazar</i>	171
Technological change and structuralist analysis <i>Armando Kuri</i>	191
Guidelines for contributors to CEPAL Review	199

A summary of the ECLAC proposal

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There is growing consensus that although a solid, balanced macroeconomic base is a necessary condition for development, it is not of itself enough to ensure that development is actually achieved or that its fruits will be enjoyed by the population as a whole. In a series of documents, ECLAC has been defining a coherent agenda of public policy reforms designed to ensure a change in production patterns accompanied by greater social equity. This article seeks to present a summary of this proposal, leaving aside for this reason the underlying diagnosis of the regional situation and the general frame of the strategy. The broad lines of the proposal are set forth in section I, and the remaining five sections deal with specific aspects. Thus, section II analyses issues connected with the microeconomic setting, including production development policies, technical change and the sustainability of development. Section III deals with the macroeconomics of changing production patterns, with special attention to stability and growth, saving and investment, and public sector finance. Section IV covers social development, as part of an integrated approach, and analyses the generation of productive employment, the reform of education, social integration and ways of overcoming poverty. Section V considers various matters connected with the form of relations with the international economy, such as foreign trade, macroeconomic policy and capital movements, and open regionalism. Finally, section VI deals with political aspects and State intervention, including participative political regimes, the interaction of the various agents, and reform of the State.

I

The broad lines of the ECLAC proposal ¹

Linking up with the international economy involves far-reaching changes in institutions at many levels: within the enterprise; in the relations between employers and workers, between government and business, and between government and workers; at the regional level of government; in the political system itself, and in overall human relations. Therefore, opening up an economy to the exterior is much more than merely lowering tariffs. It means embarking on a whole new way of functioning: economically, socially and politically.

Fernando Fajnzylber

The main concepts with regard to changing production patterns with social equity proposed by ECLAC may be summarized in the five aspects set forth below. ²

Firstly, the central idea around which all the others revolve is that changing production patterns must be based on the systematic and deliberate incorporation of technical progress: in the current context of globalization the basis for the international competitiveness of the countries of the region can only be that of achieving ever-higher levels of productivity. Technical progress is not restricted to the development and adaptation of technology: it also includes business management capacity and improvements both in general organization and in the quality of the labour force.

Changing production patterns must include the entire system within which the enterprises operate: the technological, energy and transport infrastructure; the educational system; relations between workers and employers; the whole apparatus of public and private institutions, and the financial system. This is why the proposal stresses the systemic nature of competitiveness. It also calls for the modernization of systems of production as a whole, with emphasis on

intersectoral linkages and the raising of productivity throughout the entire system. Thus, industrialization must go beyond the narrow sectoral framework in which it has traditionally been approached and must be linked up with primary-sector and services activities, so as to integrate the whole system of production and promote the progressive homogenization of levels of productivity. Still within the area of the microeconomic setting, it is held that changing production patterns must be compatible with conservation of the physical environment, and the environmental and geographico-spatial dimension must therefore be fully incorporated into the development process.

Secondly, it is emphasized that coherent and stable macroeconomic management, while not a sufficient condition on its own, is of fundamental importance for changing production patterns with social equity, since this demands consistent management of a whole set of monetary, financial and exchange-rate instruments, as well as appropriate measures in terms of taxation and government spending. The exact content, order of application and graduality of adjustment programmes and the links between short- and medium-term policies must be determined with particular care.

The challenge raised by the proposal calls for a substantial rise in the investment rate above current levels, which in turn means that per capita consumption must grow more slowly than the per capita product, thus permitting an increase in saving. In view of the structure of income distribution in the region, this reduction in the growth rate of consumption should be the responsibility of the high-income strata and the government.

□ The authors wish to express their gratitude for the valuable comments offered by Renato Baumann, Mikio Kuwayama, Wilson Peres and Aníbal Pinto.

¹ This section is based on Rosenthal, 1993/1994.

² The main documents on this subject are: ECLAC, 1990, 1991, 1992a, 1992b, 1993, and 1994a, 1994b and 1994c. For a general overview of the ECLAC strategy, see Ottone, 1992/1993; Baumann, 1994; Lahera, 1994, and Rosales, 1994.

Thirdly, it is maintained that changes in production patterns cannot be sustainable over time unless there is social cohesiveness, which demands greater equity: but greater equity cannot be expected unless there is economic growth, which in turn demands changes in production patterns. This symbiotic relation between growth and equity is feasible through the mutual complementation between policies aimed at greater efficiency and higher growth, on the one hand, and those aimed at securing greater well-being and more equitable income distribution, on the other.

Fourthly, the proposal assigns due importance to Latin American and Caribbean integration and intra-regional cooperation, since these factors have a vital contribution to make to the consolidation of changes in production patterns. It is considered that the interaction between greater trade openness and deregulation, on the one hand, and integration promoted through explicit agreements and policies, on the other, is of

decisive importance and that the links between these elements should be strengthened within the context of what has been called "open regionalism".

Fifthly and lastly, all the foregoing is based on the recognition of the need for a democratic, pluralistic and participative setting. It is also assumed that the minimum platform of agreements in support of any national effort should be reached through consensus-building and that social conflicts must be kept within limits that the democratic system can handle. It is proposed that there should be a new style of State intervention, since it is important to redefine the role of public action and ensure that it is carried out in an efficient and effective manner. For this reason, it is held that while its actions should be concentrated on current priorities, at the same time the institutions should be strengthened in order to provide a stable and predictable framework for the operation of private enterprise.

II

The microeconomic setting

1. Production development policies

One of the current challenges is that of strengthening the form of participation in the international economy by guiding the structure of production in the same direction as the most dynamic trends in world trade. In order to do this, it is necessary to increase the proportion of knowledge and technological value incorporated in each product by fostering the production and services linkages in exports.

Increasing productivity and international competitiveness does not only require suitable macro-economic and trade policies, but also appropriate microeconomic and mesoeconomic policies: that is to say, modernization not only of the enterprise itself (in technology, equipment, organization and labour relations), but also of its setting (factor markets and inter-firm coordination).

The systemic nature of competitiveness means that prime attention must be given to integration of the system of production and attainment of increasingly uniform levels of productivity. The development of sectors in watertight compartments must be eschewed, seeking instead to establish closer links

between exports of primary commodities, manufactures and services; the establishment of chains of production based on existing comparative advantages must be promoted, and closer production linkages must be fostered with a view to the building of dynamic comparative advantages in line with the resource endowment.

Thus, for example, in the natural resources sector measures should be taken to stimulate the establishment of production networks which are linked with industry and services, so as to heighten the value of the resources and assist in a process of change which will increase their competitiveness. With regard to agriculture, it would be desirable to overcome the urban/industrial bias in the orientation of investment and social expenditure, to modify the present bias in favour of big agricultural firms, and to favour the modernization of small-scale agriculture. To this end it would be useful, for example, to explore the possibilities for complementation between agro-export firms and small and medium-sized farms. Developing such links is not a task that can be left to the workings of the market: it is a further example of the need to develop markets and institutions and, in this

case, to focus the whole range of public and private instruments in the areas of coordination, training, technical assistance, information and incentives on the task of exploiting and stimulating the links between exporters and smaller-scale producers.

The sought-for competitiveness has a systemic component in that it cannot be efficient as long as policies to promote competitiveness are designed and applied in watertight compartments and thus fail to take advantage of the obvious sectoral, regional and institutional relations which exist in public action. The coordination of policies on public investment, infrastructure, human resources training, export incentives, support in the areas of technology and finance, and technical cooperation must be a top priority. Such coordination could be expressed in some institutional referent through which the unified management of these policies could be evaluated.

Industrial policy requires a gradual and selective opening-up process, integral promotion of industrial exports, the incorporation and dissemination of technical progress, and support for small and medium-sized firms. In addition to macroeconomic stability and a system of relative prices which is not biased against employment, the latter also require policies on technical support and infrastructural and financial services. A component in the generation of productive employment which is often given insufficient attention is that of labour relations. Within individual firms, vertical and hierarchical structures should gradually be replaced with more horizontal and flexible systems which permit the intensive exchange of information and stimulate cooperation.

Production development policies are aimed at reducing or eliminating the differences between the average productivity levels of the region and those corresponding to the best international practice. They seek to strengthen rather than take the place of the market forces. Such incentives as are provided should be of a temporary nature, for it is important to seek near-optimal functioning of the key markets—for technology, physical capital, human capital and foreign exchange. In order to achieve this, it would be desirable to use policies of a horizontal nature, namely, those aimed at filling the gaps in those markets and overcoming the most serious bottlenecks that occur in them.

In order for markets to operate to the full, it is important that there should be adequate competition, information and transparency, and it is the State's

responsibility to ensure that these qualities exist. Effective functioning of the markets involves free prices and deregulation and, often, intervention to create or simulate markets which are absent, insufficient or segmented.

2. Technical change, training and support services

There are three sets of related measures which are important for the development of production. The first of these covers technological development policies, the second, labour training and a programme designed to put businessmen in the region in contact with the best international production practices, and the third refers to support services.

a) Technological development

Technology policy must be designed to supplement and adapt the technological infrastructure in the priority activities which display the most serious lags; it must promote a greater propensity on the part of firms to incorporate technical progress and to make innovations, by giving government incentives to embark on innovative activities and providing support for the establishment of new enterprises of high technological level.

It is also suggested that a network of linkages should be developed between the research system and the rest of the technological infrastructure, on the one hand, and the production sector on the other, together with the promotion within the latter of close contacts between the users and producers of goods and services. This latter aim could be achieved following the example of various integrated systems of production where experience has already been built up and there is basic capability at the local level. Selective criteria must be used, as only in this way will it be possible to generate endogenous technological innovation nuclei.

Mechanisms for developing the supply of technology must cover two areas: public and private supply. In promoting private supply it is advisable to emphasize development at the enterprise level and to promote closer links between firms and technology centres. To this end, it may be appropriate to promote research contracts for the development and adaptation of technologies, thereby increasing the private funds available for research and development activities, and to favour this by making outlays for

private projects or private contributions to technology centres tax-deductible.

With regard to the public supply of technology, the main corrections called for are those aimed at establishing a closer relationship between the resources used and the achievement of appraisable results, by using performance indicators. In order to strengthen this approach, it would be desirable to increase private participation in the management and financing of technology institutes and to introduce greater flexibility in the budgetary management of such institutes, as well as in the rules on their operation and on the amounts and types of projects eligible for receiving benefits under programmes to support technological innovation.

The incentives for the promotion of technology should seek to give rise to initial demand by businesses and subsequently go along with the increasing sophistication of such demand. International experience shows that industrial extension activities play a central role in inducing demand and that this task is unavoidable for the public sector, especially as regards the incorporation of small and medium-sized firms into the technological development effort. Demand should also be strengthened through the establishment of technological management centres which, *inter alia*, should promote subcontracting arrangements. The vital function of ensuring proper links between the supply and demand for technology can be carried out by a variety of agents, and the extent of this variety should be fostered.

It is important to improve the systems for the dissemination of information, by strengthening the systematic follow-up of internationally available technologies and management methods; integrating firms into the appropriate information networks; promoting strategic alliances between national firms and international corporations which are leaders in terms of technology, management, quality and access to the most important markets; simplifying administrative formalities; improving the information available, and providing fiscal incentives.

b) *Training and extension activities*

The public sector has an irreplaceable coordinating role to play in the task of improving identification of the training needs of the various sectors, regions and scales of firms, processing and disseminating that information, stimulating and subsidizing the formation of training firms, and progressing in

the preparation of indicators which will allow training quality and results to be evaluated. As well as harmonizing training supply and demand, it should also regulate the content, quality and appropriateness of such activities and improve the incentives for the training of employers and workers. These tasks can be carried out at lower cost and with better results by operating on a tripartite basis, in conjunction with employers and workers.

In short, in view of the magnitude of the tasks involved in improving labour quality in the region, it would appear to be urgent to organize national-level debate on the following actions:

i) Giving incentives to firms which train their staff, in order to offset the negative externalities that such training usually involves for the firms.

ii) Adopting measures to promote, publicize and heighten awareness of the need to incentivize training and introduce more efficient human resource management practices and more cooperative industrial relations.

iii) Reorganizing the supply of training by promoting greater private supply and concentrating public efforts on ensuring that training and those who offer it are more closely linked with the system of production and its future needs, as well as guaranteeing both the quality and the appropriateness of the courses offered by establishing arrangements for certifying the training given and promoting and financing the provision of training for such groups as marginal workers, the unemployed and small-scale businesses, which are usually not covered by training programmes.

iv) Promoting special basic training programmes for the large segment of labour force members (40% in the region) who have not completed their primary education and subsidizing regular training programmes to help improve the production potential of this great mass of workers who will not be able to benefit from the educational reforms put into effect.

One concrete proposal for narrowing the big gap between the productivity of many firms in the region and that of the developed countries is to implement large-scale extension programmes providing financial assistance for visits to foreign firms using the best international practices. Thus, it is suggested that arrangements should be made and partial financing provided to allow managers, engineers, technicians, supervisors, operatives and trade union officials from various production subsectors to visit plants abroad

which use the most advanced practices. Each of these visitors would subsequently pass on what he had learned to other firms, as well as to the respective business and trade union organizations. The programme would be open to any sector willing to pay its share, regardless of whether it was engaged in export or import-substitution activities.

c) *Support services*

As regards basic production support and liaison services, policies are required for the modernization of the electricity, water, communications, banking, insurance and transport sectors.

In the area of infrastructure, in general it would be desirable to draw a distinction between basic infrastructure—which meets the primary needs of the population, such as drinking water, local and rural roads, and health and sanitation services—and production infrastructure, such as highways, ports and telecommunications. In the first case, social considerations should prevail, dealt with according to their level of priority in the light of given criteria. In the second case, it is both possible and necessary to incorporate criteria based on economic return, rate fixing and financial considerations, encouraging the formation of infrastructure markets.

The absence of direct links between the demand for road facilities and their financing is a constant incentive for excessive demand and an obstacle to their efficient management. The existing road network, and especially its maintenance, can be financed directly by vehicle users. There are no economic reasons why electricity and drinking water supply should be financed with the charges paid by users while the road transport system is subsidized by taxpayers at large. This subsidy is inequitable, because the lower-income sectors, and especially those located in isolated regions, contribute proportionately more to the financing of road facilities than the use they make of them.

reaches the minimum level compatible with the strategy in force. In addition, it is necessary to achieve a generalized adequate level of equipment in the field of data processing, to promote the spread of information technologies, and to define a regulatory framework for the sector.

With regard to port modernization, it is essential to ensure free access by workers to jobs in the sector, to permit working in three shifts during the whole year, to allow free entry by private stevedoring firms into the sector, to authorize marine terminals which currently have only a single user to handle cargo belonging to third parties, and to sell off ports directly.

3. Sustainability of development

Changing production patterns must be compatible with conservation of the physical environment, to which end it is necessary to bring about the full incorporation of the environmental and geographico-spatial dimension into the development process. A priority activity in this field is the formulation of a national policy of education and social communication which will heighten public awareness of the problems of the sustainability of development.

A prior requisite for the various environmental policies is greater knowledge of the existing resources: their potential, rates of use and levels of investment. This will make it possible to improve the effectiveness of environmental and territorial planning policies. Public policies must include environmental standards and regulations in such areas as health, marine pollution, river basin management and the transport and disposal of dangerous wastes.

It is essential to establish closer links between the environment and economic policy, especially by ensuring that the prices of goods and services reflect the effective social cost incurred by society in their production. The resulting economic efficiency can

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