

ECONOMIC PERSPECTIVE: A FUNCTIONAL APPROACH TO HEMISPHERIC COLLABORATION

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The simple fact is that the rate of growth in Latin America has been quite remarkable. In the 1960s and 1970s, gross domestic product (GDP) increased at the rate of 5.3 and 6 percent respectively. The GDP per capita increase was 2.7 and 3.4 percent respectively. Both of these figures exceeded the overall Alliance for Progress targets.¹ There was a deceleration in GDP (and GDP per capita) in the late 1970s, dropping from about 4.9 to 2.2 percent and 6 to 3.4 percent. That deceleration is the framework for a good deal of anxiety in Latin America and among those interested in its future.

The high aggregate statistics of progress are not some kind of statistical artifact. They are reflected in fundamental social data. Life expectancy, for example, has increased remarkably in most parts of Latin America. Also, the rate of growth in both secondary and higher education is about 10 percent. Medical services have improved substantially.

None of us need to be reminded that there are many unsolved problems. But the general state of Latin America, in terms of stages of economic growth, taking the area as a whole, is beyond what I call take-off.² The region is in the drive to technological maturity. Technological maturity is the stage when, having acquired initial experience with industrialization, usually in relatively light industries, societies move on to acquire more advanced tech-

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1. The Alliance for Progress, in 1961, set as an objective, 2.5 percent per capita per year economic growth for each country of Latin America. The Charter of Punta del Este, Aug. 17, 1961, 45 DEP'T ST. BULL. 463 (1961).

2. Take-off is a critical period in a nation's economic growth which leads to economic expansion. "The take-off is defined as the interval during which the rate of investment increases in such a way that real output per capita rises and this initial increase carries with it radical changes in production techniques and disposition of income flows which perpetuate the new scale of investment and perpetuate thereby the rising trend in per capita output." W. ROSTOW, *THE PROCESS OF ECONOMIC GROWTH* 274 (1962).

nologies. These technologies include metals, metal working, chemicals, and the simple forms of electronics. It is in a more sophisticated and diversified range of industries that Latin America has been moving forward with quite extraordinary momentum, although damped to a degree in the second half of the seventies.

I. THE SCENARIO FOR A RENEWED EFFORT

A. The Alliance For Progress

Organizing the revival of a concerted effort in the hemisphere on economic matters makes it evident that there can be no return to the sixties. One must look to the eighties and nineties. Even then, the United States was not a dominant partner in the hemisphere who could determine policies in Latin America. We were a junior partner in the Alliance, as we should have been. Someone during this symposium cited (perhaps Covey Oliver) that the proportion of investment in Latin America that was Latin American was at least 90 percent. The United States did provide a margin—perhaps a critical margin of investment—along with an element of political inspiration when it picked up the concept of the Alliance. This had the powerful effect of elevating, within Latin American political life, those prepared to devote their lives to economic and social progress. But essentially, the Alliance for Progress was a commitment by the Latin American governments to their peoples that they would treat economic and social progress as the highest enterprise of political life. It has so remained.

This commitment has also been significantly helpful in circumstances where Latin America has had to move forward in modernization with two grave fundamental weaknesses. The most fundamental is that Latin Americans have been trying to modernize their societies while bearing the burden of rates of growth of population between 2 and 3 percent. Not until the second half of the seventies did the rate of population increase begin to decline. It declined from about 2.8 percent per annum to 2.6 percent. Without this beginning of the demographic transition, there would be no hope for the next century. To modernize a society, however, with the age structure which exists in Latin America, the demand for jobs and the requirements for social services, is an extraordinarily difficult exercise. The other fundamental burden is the endemic political instability.

B. *Latin American Dynamics*

The design of a policy for the future must take into account that Latin America is now comprised of a more mature set of societies than existed in the fifties and sixties, commanding greater technical competence in every dimension. Latin America is at a stage of its evolution where it is not merely anxious to keep the United States from intervening in ways that are unacceptable. After all, that is an old theme in the hemisphere. Latin America is anxious to move out into the world scene, standing on its own feet.³ Moreover, despite frustrations and slow going, the impulse towards Latin American unity remains strong. Some of the most powerful forms of intra-Latin American cooperation are not among governments but among banks and business firms.

II. THE NEED FOR GREATER ECONOMIC RELATIONS

Noting this background, it is worth asking why there is an inclination in Latin America to look to a revived partnership or set of more positive relations with the United States on economic matters. There are two reasons, as follows: First, the deceleration of growth rates; and second, the palpable failure of the New International Economic Order negotiations since 1974.⁴ The deceleration of growth arose primarily from difficulties in the balance of payments. These difficulties derive, above all, from the increased price of oil imports, and in some cases because of a neglect of agriculture, yielding an increase in food imports. The slow down of growth in the advanced industrial world was also a factor. As Latin America tried to maintain momentum, they turned to increased borrowing in private markets. Allocations for debt service began to absorb rising proportions of foreign exchange availabilities.

A. *The Brandt Report*

This author believes these considerations led to an agreement in principle to hold a meeting of the Special General Assembly of the Organization of American States (OAS)⁵ in order to bring the

3. *But see* Orfila, *Toward Regional Self-Sufficiency* 31 AMERICAS 3 (Nov. 1979). Orfila has argued strongly against a Latin American organization without the United States.

4. Declaration on the Establishment of a New International Economic Order, G. A. Res. 3201 (S-VI), U.N. Doc. A/Res/3201, *reprinted in* 13 I.L.M. 715 (1974).

5. The Organization of American States was established to promote peace, economic growth and solidarity among its members. Charter of the Organization of American States, Apr. 30, 1948, 2 U.S.T. 2394, T.I.A.S. No. 2361.

hemisphere together for the design of a new economic program. This did not happen immediately because there was no agreement as to what characteristics such a program should possess. The Secretary General of the OAS was then asked to organize a group of experts to define such a program. They produced a report under the chairmanship of Felipe Herrera.⁶

A consensus emerged within this group as to what the areas of cooperation should be.⁷ The four major areas isolated were food (agriculture), natural resources, energy and the problems occurring in the small countries. Three other areas considered were overcoming illiteracy, problems of both urban and rural environment, and the need to build up Latin American capacity in the fields of science and technology. (Some thought the latter three belonged with intra-Latin American cooperation rather than hemispheric, but there was no strong objection.) There was some discussion of migration in the hemisphere which led to a recommendation that a separate enterprise should be set in motion to examine this problem. The four major areas were chosen for the following reasons.

1. *Food and Agriculture.* Food was chosen because regardless of how rapid the decline of the birth rate proves to be, there is going to be an extraordinary population bulge in Latin America. The mothers of the children of the next generation are already born; we owe it to those children to not only help them survive but, if possible, to have in their first five years enough protein so that their talents, physical and mental, can be fully developed. Latin America has been very uneven in the priority it accords agriculture. Some countries have done relatively well while others have done badly. There are many historical reasons for the relative neglect of agriculture. The fact is, however, that mature industrialization requires a vital, rapidly growing, and highly productive agriculture. In any case, an acceleration in the growth rate of agricultural production is one area for hemispheric cooperation on which all involved easily agreed.

The problem has a special cutting edge now because countries

6. Hemispheric Cooperation and Integral Development, OAS/SER.T/II,GTC/15-80, Aug. 6, 1980. The group of experts who produced the report was made up of Felipe Herrera, chairman, Miguel Alvaro Ozoros de Almeida, Nicolás Ardito Barletta, William G. Demas, Gert Rosenthal, Walt W. Rostow, Germánico Salgado and Leopoldo Solís [hereinafter cited as Herrera Report].

7. For the author's deeply rooted convictions presented according to his viewpoint of what the future agenda of the hemisphere should look like, see Rostow, *A Fresh Start for the Americas*, 31 AMERICAS 39 (Feb. 1979).

which have neglected agriculture have become dependent on food imports at a time when pressure has been applied on foreign exchange availabilities. Looking not only at Latin America but at the world, the increase of population from 4 billion to 6 billion, which is foreseeable, is beyond the capacity of the United States, Canada, Australia, and Argentina to feed. A new high priority for agriculture is required throughout the developing world. A 4 percent rate of growth in the developing countries is necessary to provide adequate nutritional levels.

2. *Natural Resources and Raw Materials.* Natural resources and raw materials were chosen second. These items were raised by one of our colleagues who underlined the serious distortion of investment in raw materials because of the complexities and difficulties in reconciling a wholly understandable desire of Latin Americans to control their own raw materials sources with adequate flows of private investment to develop them. Private foreign capital has tended to go to what is believed to be more politically safe areas (such as Australia, Canada, South Africa). Therefore, it was urged, among other things, that concerted efforts be made to reconcile the legitimate interests of the countries and private lenders so that these natural resources could be developed in a more normal way to reflect the productivity of the resources and the interests of all concerned. There are also new technologies for finding resources. Brazil and Mexico are exploiting these possibilities, including satellite photographs and aerial photography. There are still substantial natural resources to be found in Latin America. A concerted effort in the hemisphere could help.

3. *Energy.* The problem with respect to energy is extraordinarily serious despite the temporary period of remission in world oil prices. Countries at the stage where Latin America is naturally run very high rates of growth in energy consumption. This is because they are still absorbing energy intensive industries such as steel and chemicals. These Latin American countries inherently have high rates of growth in industrial production at this stage. In addition, they are urbanizing very rapidly and the cities are more energy intensive than the countryside.⁸ Large amounts of investment are go-

8. In the United States, we run an energy/GNP ratio at the margin of .4 or lower. It is hard to calculate this ratio exactly because it varies considerably from year to year and many factors are simultaneously at work. In Latin America, the ratio is typically 1.0 or higher. Consequently, they are generating rates of increase in energy consumption from 7 to 10 percent a year. Seven percent means a doubling in ten years; 10 percent means you double in seven years. *See id.*

ing to be required in the continent to provide the energy base needed to sustain Latin American economic and social progress. Otherwise, energy will be the limiting factor on growth.

4. *Problems Associated With Small Countries.* As for the small, vulnerable countries, it was generally agreed that we have to buy time for them to weather the shocks. These countries do not have the resilience possessed by some of the large countries nor the access to private capital markets. It will take time to work towards longer term solutions in the Caribbean and in Central America. In the long run, they will have to move toward economic consolidation and cooperation. Meanwhile, we cannot walk away from these welfare problems. The preceding sums up the list of Latin American priorities where a concerted hemispheric effort is needed.

III. POSSIBILITIES TO BE CONSIDERED FOR LONG-TERM DEVELOPMENT

A. *Global v. Regional Agendas*

The five points made by President Reagan at Cancun⁹ have been cited during this Latin American conference. One of those points (the third) suggested concerted North-South cooperation to render the developing countries self-sustaining in food and energy. Behind that priority is a global analysis much like the analysis underlying the previously discussed report on the hemisphere. The Brandt report¹⁰ was a serious, well-meant effort. Its impact has been limited because it contained some elements that were politically unacceptable or technically faulty. But it contains four chapters that are wholly consonant with our hemispheric recommendations: food, energy, raw materials, and the environment. This is a perception that is growing. For example, Minister-Chief of the Planning Secretariat of the Presidency, Antônio Delfin Netto, recently said the leading sector in the growth of Brazil in coming years would no longer be motor vehicles, but agriculture and energy.

My perspective on these matters arises from the history of the world economy over the past two centuries.¹¹ Looking backward

9. President Reagan's statement at the First Plenary Session of the International Meeting on Cooperation and Development in Cancun, Mexico, 17 WEEKLY COMP. PRES. DOC. 1185, 1187 (Oct. 22, 1981).

10. THE INDEPENDENT COMMISSION ON INTERNATIONAL DEVELOPMENT ISSUES, NORTH-SOUTH: A PROGRAMME FOR SURVIVAL (1980).

11. In a work recently completed by the author, the world's economic history and future

and then forward, it was clear that the great boom of 1951-1972 took place in the context of the fourth sustained period of relatively declining basic commodity prices; and that we entered the fifth phase of relatively expensive basic commodity prices at the close of 1972. As in other such periods, enlarged investment in basic resources is a key to the resolution of the problem. Therefore, it was heartening to see my colleagues in Latin America and others out of their own insight come to much the same conclusion about where priorities now stand for a new global agenda.

Much of that agenda should be handled regionally. The heart of our common business is to lay the basis for investment programs. This cannot be done by joining 150 fellows around the table, as is done at the United Nations. It could be done in this hemisphere, and in an organization of the Pacific Basin, which is badly needed. It could also be accomplished in Africa, where Europe should take the lead, with Japan and the United States also present. China and India, however, should be dealt with on a consortium basis through the World Bank because of their large size.

It was pleasing to see that at Santa Lucia, Secretary of State Haig repeated President Reagan's third point¹² and left open the possibility of implementing it regionally in this hemisphere. If everyone acts seriously on President Reagan's third point, the result could be more substantial than that sparked by President Truman's Fourth Point.

There are many reasons for the failure of the New International Economic Order (NIEO). One of the most fundamental of these reasons is that the negotiations have been handled by foreign office officials. They are experts in the rhetoric of the NIEO and in defense against it. They are also experts in the mass of resolutions generated since the April 1974 United Nations session on the NIEO. But serious business requires that we bring together the men who bear direct operating responsibility for economic policy within their countries.

B. The Necessity for Solutions to Economic Problems

Returning to the Herrera Report,¹³ it is questionable whether the United States and the Latin American countries are ready to

are thoroughly examined. See W.W. ROSTOW, *THE WORLD ECONOMY: HISTORY AND PROSPECT* (1978).

12. *OAS General Assembly Meets in St. Lucia*, 82 DEP'T ST. BULL. 1, 2 (1982).

13. Herrera Report, *supra* note 6.

move forward. It is believed that we have supplied a relevant agenda to the governments. Hopefully, they will move forward. If it is possible to start with things as palpable as food and energy, it will be found that the areas for cooperation will expand. Each country should consider, within the context of the next twenty years, their population projections, nutrition requirements, and agricultural potential, and establish what can be done. Furthermore, they should evaluate the external help needed to render themselves essentially independent of food imports.

No one has yet mentioned the Inter-American Bank.¹⁴ This is a powerful and important instrument in the hemisphere which could help the governments design such plans in food, energy, and other fields, and then help finance their external component. One major effect of such exercises would be to force the governments in Latin America seriously to consider how tough the problems are that lie ahead and that action must be taken now.

In order to suggest how universal this array of problems is, a word will be said about the Texas Commission on the Year 2000. The problems that have been identified as critical are energy (where like Venezuela our production is falling but masked by the rise in price), agriculture (where the rate of productivity increase is decelerating), water, transport, and, research and development—which turns out to be fundamental for everything else. Solutions to these critical supply-side programs are basic to continued economic and social progress.

Latin America and the rest of the developing world will find it very difficult to grow rapidly if the advanced industrial countries do not learn how to reconcile rapid growth with control over inflation. The industrial countries' ability to cope with this problem has been quite deficient, and can be compared to their performance between the two World Wars where a different set of difficult issues existed. Unfortunately, the situation has not improved. (This is worrisome, particularly to an economist and an economic historian.) We are in the midst of a potentially tragic failure like that of the economists between the wars. Serious politicians have no one to turn to but economists. Between the wars the economists were obsessed with re-installing the theories and policies that had worked tolerably well before 1914.

The field of economics today is split into two groups, namely

14. Agreement Establishing the Inter-American Development Bank, Apr. 8, 1959, 10 U.S.T. 3029, T.I.A.S. No. 4397.

monetarists and Keynesians. Both groups adhere to macroeconomic theory. They indulge in various arguments and debates arising out of the 1950s and 1960s, but neither address the real issues. For them, energy, food, raw materials, and new technologies arrive by immaculate conception. They regard such subjects as too vulgar for serious monetary or Keynesian economists to study. They imply that if we attain the right level of effect-demand, all will fall into place; this is nonsense. The problem should be taken seriously because by the time the economists between the wars pulled themselves out of their obsessions with the past and began to generate theory and policy relevant to their time, the Japanese military was in power in Tokyo and Hitler was in power in Germany. There was no option but the Second World War. It would be unfortunate for the economic profession, due to the inherent time lags in the minds of academics, to contribute again to a major catastrophe.

Returning to the main theme, a functional approach to hemispheric collaboration would bring with it a great increase in lending (private and public), increased transfer of technology, and set a correct model for North-South work elsewhere. This hemisphere ought to lead because, despite all its palpable weaknesses, the Organization of American States and the Hemispheric System is real and deeply rooted.