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Discussion Paper

by

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on

Paul Sigmund's

DEVELOPMENT STRATEGIES IN CHILE, 1964-1983
THE LESSONS OF FAILURE

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COMMENTS ON THE PAPER BY PROF. SIGMUND

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In 1982, Latin American countries experienced the worst stagnation since the decade of the 1930s, as cited by Sr. Enrique Iglesias in ECLA's report "Balance of the Year". The rate of growth of per capita income was, on the average, minus 3 percent, and negative for all 19 countries. Rate of growth of inflation was 80 percent, and net foreign capital inflow decreased drastically from $42 billion in 1981 to $19.2 billion in 1982. Accumulated international debt reached $300 billion by the end of 1982, beyond a modest estimate by ECLA, $23.5 billion.

This worst economic achievement and accumulated international debts are causing further shrinkage of international trade, threatening private banks in developed countries for a possible moratorium crisis. How can this crisis be averted in the short-run by bridging loans from developed countries? How can the debt amortization program be adequately rescheduled in the future? How can Latin American governments persuade their people to accept this austere policy, in order to meet the stringent requirements set by the IMF? How will the results of these new policies affect the new tendency to call for civil government in the southern zone? These are disturbing questions of great concern for all the peoples of the world.

Chile is not an exception. As of now Chile faces an accumulated international debt of $18 billion or a very high per capital debt level of $1,500. Naturally, there are some common factors in Latin America and some original ones in Chile for these bad results, after many decades of futile efforts for economic development.

As Prof. Sigmund clearly analyzed in his paper, Chile tried very different development strategies in these decades, such as: (1) gradual industrialization under a capitalistic regime and protective tariff up to the government of President Frei, (2) socialistic planning with nationalization of important sectors including big copper companies by the government of President Allende; (3) economic development through the formation of the Andean Common Market among the five countries, with preferential tariffs and assignment of industrial factories up to the government of Pinochet (this possibility is not intensively discussed in Sigmund's paper); (4) liberalization policy, with the abolition of subsidies, protective tariffs, wage control and the return of nationalized firms to private sector by the government of Pinochet. We might add another possibility: (5) industrialization through export promotion, which differs from the past industrialization, in that it leaned towards import-substitution.

These five strategies seem to me, the exhaustive development strategies open for every developing country. Chile tried Nos. (1), (2) and (4), without success, as based on various factors discussed in Sigmund's paper. Chile voluntarily withdrew from the Andean Common Market, as she sought out to increase foreign capital inflow by relaxing regulation of amortization of profits.

However, the current stagnation even after the liberalization policy seems to reveal the weak competitive power of Chilean agriculture and industry. If Chile is really interested in the promotion of industry, at least some selective protection of its infant industries will be necessary. The "Revolution in Liberty" of the Frei government could not succeed mostly due to the low productive efficiency of agriculture and long industrial protectionism because of political power struggle in Chile. To quote Sigmund "In the Chilean case, ideology divided the country into three groupings, and when anyone came to power, the other two would combine to prvent it from governing".

The strengthening of two basic sectors, agriculture and industry, remains the key issue for economic development. Agriculture is suffering due to the hasty redistribution policy of the Allende government, hence, it could not realize sufficient productivity to feed the Chilean people. The industry sector needs a sufficient market size to sell its products to, but after withdrawing from the Common Market and trade liberalization, Chile could not stand severe competition with products from developed and ASEAN countries. Based on the low growth rate of these sectors and employment, massive population flowed into Greater Santiago, forming a big informal sector, thus requiring big social needs for public expenditure. As one knows fully well, the existence of a big informal sector is an unstable factor in politics.

To overcome the short-term debt management crisis, Chile must meet the following requirements:

1. Follow the conditions set by the IMF to lower inflation and improve the balance of payment.
2. Obtain financial cooperation from developed countries to set up a suitable rescheduling program.
3. Cut off import and increase export-earning capacity.

Such austere program will, of course, increase the social frustration of workers in the informal sector which suffers from high unemployment rate and very low standard of living.

What is necessary in the long-term is to establish a long-running strategy to overcome common Latin American problems (incomplete agrarian reform, unequal distribution of income, monocultural sectoral structure, high dependence on foreign capital inflow, etc.), and the Chilean problems (small domestic market, big informal sector in Santiago, a city of consumption). This long-running strategy may be and must be a careful combination of development strategies (3), (4) and (5) and satisfy the following conditions:
(a) advance gradually the income redistribution policy which is necessary to enlarge the domestic market and mitigate

the social frustrations of the informal sector in the urban area; (b) strengthen cooperation with developed countries and increase the inflow of foreign capital; and (c) promote investment the the most productive areas of industry and cultivate selective export, which is necessary to change the monocultural structure and stabilize the increase export earnings. The implementation of these policies may require at least some political independence of a technocrat group who is in charge of the implementation of policies.

But I still think firmly that the basic problem of Latin American countries including Chile is to "develop a political regime which can overcome the obstacles to economic development and social justice without sacrificing freedom". From the viewpoint of an economist, it is noteworthy that (A) simultaneous achievement of these targest imply a compromise between various social groups, and stable economic development requires a somewhat middle political position and (B) a good prospect of a long-run development strategy is a prerequisite condition to effecting a harmonized political regime and (vice versa).