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PRESENTATION

This is the fifth year that the weekly dispatches transmitted during a year, by ECLAC Washington to ECLAC Santiago and to other subregional offices, are gathered in a single document.[1]

For their presentation here, the dispatches are classified by subject and ordered chronologically within each chapter, with each heading indicating the relative saliency of those issues within the international economic agenda.

The three most important issues which dominated the international economic agenda, throughout the concluding year, are listed here according to what, avowedly, is a very subjective ordering of their relative importance.

First, 1991 will be recorded as the year of the universalization of the Bretton Woods institutions. Commenting on the participation of a delegation from the Soviet Union in the Bangkok annual meetings, the Managing Director of the IMF, Michel Camdessus said, for these institutions, "a long-awaited opportunity...to become truly universal...is drawing close." This was only the culmination of a process by which, in less than a year, Bulgaria, Czechoslovakia, Mongolia and Namibia joined the Bank and the Fund, with Albania and Switzerland requesting their admission as well. Thus, 1991 saw the completion of what Albert Hirschman foresaw almost ten years ago and baptized as "the triumph of monoeconomics," proving that as with physics, "there is only one economics."

Second, the recession in the United States was not news in 1991, because it started in the last quarter of last year and continued into the first quarter of this year, with only a slight decline experienced during the second quarter. What became news in 1991 was that the weakness of the recovery was unable to lift consumer confidence and to stop the increase in jobless claims. Consequently, by the end of the year the sluggishness of the economic recovery in the United States began to take its toll. The rate of approval of the President's handling of the economy was falling, clouding his prospects for re-election next year.

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[1] ECLAC, International Economic Highlights 1987 (LC/WAS/L.2) 17 August 1988; 1988 (LC/WAS/L4) 17 March 1989; 1989 (LC/WAS/L.8) 15 March 1990; 1990 (LC/WAS/L.11) 22 March 1991.

Finally, no major achievements were registered in international trade, largely because the stalemate in the Uruguay Round negotiation, caused by agricultural subsidies, was overcome only by the end of the year. However, this did not preclude other developments, such as the opening of negotiations between Canada, Mexico and the United States to create a North American Free Trade Area, which by the end of the year appeared stalled because of the weakness of the recovery in the U.S. economy.

Some of these issues were described in the dispatches transmitted regularly during the year. They are gathered here with the purpose of making them available for easier consultation, in case the Washington D.C. vantage point they present still has some testimonial value.

To conclude, those readers who are not familiarized with them should be reminded that each dispatch tries to remain within the self-imposed limit of 750 words, because their purpose is only to bring an issue to the reader's attention.

I. THE WORLD ECONOMY

I. 1. 1991 LOOKS BLEAK (16 JANUARY 1991 WDW/1/91)

Three basic factors are contributing to the world economy's bleak outlook for 1991. First and foremost there is the prospect of war; second the recession in the United States; and third the stagnation of the trade talks around the issue of agricultural subsidies.

The immediate consequences of an armed conflict in the Middle East are only beginning to be sorted out. Despite the highest level of petroleum stocks in the industrialized nations since 1982, as well as the promise that these stocks will be swiftly released, oil prices are predicted to immediately soar up to $75 a barrel in the event of war. A relatively more optimistic forecast, in the short-run, sees an oil glut developing, if and when the war is short.

Another immediate victim will be the dollar exchange rate, also expected to soar in the case of war, or to drop abruptly in the case of peace.

Finally, financing the military buildup in the Persian Gulf has already cost $10 billion, with foreign governments contributing an estimated $6 billion. Additionally, the administration estimates that the U.S. will have to spend almost $30 billion in 1991, to sustain the present levels of military presence in the Gulf, an estimate that does not include the actual cost of fighting a war.

Expenditures in the Persian Gulf are exempt from the spending limits agreed recently in the budget deficit reduction package, but they still drain federal resources. Thus, recently released White House estimates reveal that the federal budget deficit will reach between $300 and 325 billion during the current fiscal year.

Compounding the present bleakness, the outbreak of war in the Middle East is expected to have a larger impact given the present fragility of the U.S. economy. The length of the military confrontation is pondered to analyze its impact on an economy that the White House finally, on January 2, admitted that was in recession. The preliminary forecast used to prepare the 1992 federal budget shows the economy shrinking for two successive quarters, at a 3.4% annual rate during the fourth quarter of 1990 and a 1.3% rate in the first quarter of 1991.

If the war is short and without major damage to oil production, it is projected that consumer confidence will respond positively, while oil prices tumble. But if the conflict lasts more than six months, turning into a military stalemate and oil supplies are affected, the scenario is for the U.S. economy to plunge into deeper recession, soaring inflation, climbing interest rates, ballooning fiscal deficits, plummeting real state values and collapsing consumer confidence.

In the search for signals on the duration of the recession, the figures for the rest of the world economy also affect negatively the performance of the U.S. economy. Monthly data from Columbia University Center for International Business Cycle Research reveal that a global slump is possible. Indexes of leading indicators are falling for Australia, Canada, Great Britain, France, Japan, New Zealand and Taiwan, while gains in these indexes appear only for Germany, Italy and South Korea. Not much hope comes from the developing countries, because deflation dominates the perspectives of commodity prices, already at their lowest level since 1987, with another drop of at least 10% expected. Not even the threat of war in the Middle East, with the immediate price increases in oil and gold, will be enough to upset this overall deflationary trend.

Therefore, the president of the Federal Reserve Bank of Atlanta, Mr. Robert Forrestal, projected that in 1991 the U.S. economy will grow at a sluggish average of 0.5%, with an estimated average unemployment rate of 6.5% and the consumer price index between 4.5% and 5%. The "bad news" is that these projections are based on an annual average of $18 per barrel of oil.

Finally, the stalemate in the Uruguay Round of trade negotiations, over agricultural subsidies, points to a deepening of the contradictions between the United States, Germany and Japan, with numerous signals of the emergence of regional trading blocs as an alternative.

First of all, it is expected that negotiations between Canada, Mexico and the United States, for the creation of a North American Free Trade Area (NAFTA), will conclude successfully this year, with the agreement submitted to ratification during 1992. Also, signals are coming from the Pacific, from Malaysia and Singapore, about the creation of an Asian bloc to counter those that will emerge in North America and Europe.

Finally, tensions about sharing the burden in the Persian Gulf between Germany, Japan and the United States have generated fears that these will be more damaging than the military confrontation itself, because they will leave scars that will fuel the already aggravated trade tensions.

Facing this impressive list of bleak news at the beginning of the year, Richard Lawrence reminded the readers of his weekly column in the Journal of Commerce that, fortunately, for the U.S. President's Council of Economic Advisers, "forecasting is an imprecise science."

I. 2. A LONG TERM OUTLOOK FOR THE WORLD ECONOMY (WDW/4/91 - 6 FEBRUARY 1991)

This is the title of a study, by S. Fardoust and A. Dhareshwar from the World Bank's International Economics Department, recently released as number 12 of the Policy and Research Series, that has gained attention probably because these uncertain times are scarcely propitious for long-term predictions.

The 1990s will be a period of fairly rapid growth for the high-income OECD developed countries, as well as for a number of developing countries, particularly the Asian newly industrialized economies (NIEs). This will perpetuate a "disturbing feature" of the eighties, called the "two-track" growth pattern of the world economy, by which the rest of the developing countries, of Africa and Latin America, exhibit less impressive growth performances and differ in their ability to "respond to changes in the international economy."

Several indicators reveal that increased interdependence characterized the world economy during the eighties:

- The steady increase in the ratio of trade to GDP, from almost 12 percent in 1965 to 19 percent in 1987;
- The expansion of international financial markets, outpacing the growth of international trade, by which "the combined average daily volume of trade in the foreign exchange markets of Japan, the United Kingdom, and the United States reached $430 billion... about 50 times the average daily volume of transactions in internationally traded goods and commodities;"
- The profound change in both the direction and composition of international financial flows, by which the United States and the developing countries ceased being the main supplier and the main

recipients, respectively, while Japan and Germany became the primary suppliers and the United States turned into the most heavily indebted country;

- The steady decline in the role of raw materials in world production and consumption;

- The continuing shift toward services in both production and trade;

- The rapid increase in the share in world trade of machinery, transport equipment and science-based products;

- And the concentration of trade flows within three major trading blocs, since "trade within the bloc as a share of total trade was 69 percent in Western Europe, 41 percent in North America, and 31 percent in East Asia."

The main "currents in the international economy," that will influence growth prospects, are identified as follows: First and foremost, the massive disequilibria among the major industrial countries will decisively influence interest and exchange rates, asset and commodity prices, and trade and financial flows. Second, the continued deregulation of product, labor, and financial markets. Third, the consequent volatility in financial and monetary conditions. Fourth, institutional changes in international trade, such as Europe 1992, the Uruguay Round and the changes in Eastern Europe. Fifth, the rapid pace of technological change. Sixth, a demographic shift that leaves the industrialized countries with rapidly aging populations, while the developing countries strive to increase labor productivity and absorb new members into the labor force. Seventh, increased awareness about environmental problems. Finally, the availability of natural resources, particularly the poverty-related issue of unequal access to food and agricultural resources, manifested in chronic food insecurity and recurrent famines, as well as uncertainty of supply and volatile prices of conventional energy sources and other strategic minerals.

A baseline scenario, as well as an alternative (low-productivity) scenario are presented. The key assumptions of the baseline scenario refer to the macroeconomic policies of industrial countries, particularly the fiscal and monetary policies of Germany, Japan and the United States, with the fiscal policy of the United States playing the crucial role.

The industrialized countries are expected to maintain an average real GDP growth of about 3 percent in the 1990s, while the developing countries present "a mixed picture." An increase of 2 percent in the annual growth rate of income per capita is expected in the severely indebted middle income countries, based on the "optimistic assumption of a gradual decline in the ratio of debt service to exports and a resumption of positive net financial transfers." By contrast, the Asian newly industrialized economies (NIEs) are expected to grow at rates "significantly above average," with some of them "graduating" by the year 2000 into the ranks of the industrial countries. Finally, in many poor countries the situation will remain precarious, with per capita income in Sub-Saharan Africa expected to grow at a yearly average of less than 1 percent.

The alternative low-productivity, "low-case" scenario is even worst.

To conclude, "the main development challenge of the 1990s" is described as "the desperate economic situation of the many low-performing countries." They are advised "to stabilize macroeconomic conditions and revive confidence, thus encouraging private investment and accelerating productivity growth." Even so, it is admitted that "such measures have a better chance to succeed if they are buttressed by external financial support long enough to allow the domestic economy to revive."

I. 3. THE IMF'S FIRST WORLD ECONOMIC OUTLOOK (WEO) (WDW/14/91 - 15 MAY 1991)

Every year, before the IMF-World Bank Spring meetings (WDW/13/91), the IMF staff makes available to the Press an advance copy containing excerpts of the forthcoming World Economic Outlook (WEO), to be published in full by the end of May. The second WEO is issued later in the year, before the IMF-World Bank annual meetings, sometime in September.

The advance copy of the first WEO contains the following chapters: current developments and short term prospects, including a global overview, with sections for the industrial and the developing countries; for the first time, there is a separate chapter dealing with the macroeconomic developments and systemic reforms in Eastern Europe and the U.S.S.R., now classified within the group of European developing countries, including sections on recent developments and prospects, as well as on the reforms in the domestic economy and in the external sector; key policy issues and medium term projections for the industrialized and the developing countries; finally, annexes dealing with oil prices, the potential output in the major industrial countries, alternative measures of resource flows to developing countries, and trade integration in the Western Hemisphere.

World economic growth is estimated to have declined from 3 1/4 percent in 1989 to 2 percent in 1990, as a consequence of the slowdown in the industrialized countries and a fall in economic activity in the developing countries of Eastern Europe, the Middle East and the Western Hemisphere. In 1991, the world economy is expected to decline further, to 1 1/4 percent, due to the weakness of some industrialized economies, to the further decline in output in the Middle East and in Eastern Europe, as well as to the downturn in the Soviet Union.

Recovery is expected to begin in several industrial countries during 1991, pulling world economic expansion to 3 percent in 1992. Also, world trade is expected to decline from 7 percent in 1989 to 2 1/2 percent in 1991 before rising to 5 1/2 percent in 1992.

The slowdown in the industrialized countries between 1990-91 is attributed to the recession in the United States, Canada and the United Kingdom, as well as to the effects of higher real interest rates in Germany and Japan and to the conflict in the Middle East. Also, the persistence of "profound cyclical divergences" among the three largest industrial economies has narrowed current account imbalances and has reduced the risk of world-wide recession.

The U. S. recession is expected to have a relatively small impact on the rest of the world for several reasons. First, the downturn in the United States is expected to be "short and shallow;" second, the share of the United States in total output has declined; and third, in contrast with past recessions, interest rates are falling in the United States.

Inflationary pressures are expected to abate in the industrial countries, between 1991-92, as a result of lower oil prices, excess capacity in some countries, and the slowdown in Japan and Germany.

In the developing countries, after the significant slowdown of 1990, growth will remain weak in 1991 before recovering to 3 1/2 percent in 1992. The rise in oil prices, during the second half of 1990, accompanied by the decline in the prices of non-fuel primary commodities, has resulted in a sharp deterioration of the terms of trade among the majority of oil importing developing countries.

On the assumption that policy slippage can be avoided, in 1992, a "marked improvement in economic performance" is expected among the developing countries of the Western Hemisphere, with growth reaching 3 1/4 percent and average inflation falling to 36 percent. These short-term projections "depend crucially upon the success of the anti-inflation programs introduced in Argentina Brazil and Peru."

The medium-term projections for the industrialized countries are based on the following technical assumptions: unchanged policies; constant real effective exchange rates among the major currencies; and a world price of oil averaging $17.18 per barrel in 1991, rising to $17.87 per barrel in 1992 and remaining unchanged in real terms in subsequent years. On the basis of these assumptions, real GDP growth in the industrial countries is projected to pick up from its current slow pace to a yearly average of 2 3/4 percent in 1991-96.

The economic situation of many indebted developing countries "remains a cause of concern." The medium-term projections for these countries depend on the persistence of macroeconomic stabilization and structural adjustment. However, prospects for the developing countries also depend on the external economic environment. Particularly, from growth in the industrial countries recovering to 3 1/4 percent a year in 1993-96; from oil prices remaining in real terms at their 1991 average; and from non-fuel commodity prices rising by about 6 percent a year after 1992.

Based on these assumptions, growth for the net debtor developing countries as a group is projected to increase from an average of 3 1/2 percent a year in 1991-92 to 5 percent in the medium term. For the developing countries of the Western Hemisphere growth rates of an average of about 4 1/2 percent are considered attainable in the medium-term. Consequently, for the developing countries of the Western Hemisphere, 1991 will be another year of sluggish growth with an expected rebound in the medium term based on what presently sound as quite heroic assumptions.

I. 4. <u>THE LONDON SUMMIT</u> (WDW/21/90 - 24 JULY 1991)

The media blitz unleashed, last week, by the presence of President Gorbachev in London almost led to the belief that aid to the Soviet Union was the only issue of the seventeenth summit of the Heads of State and Government of the seven major industrialized economies--Canada, France, Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States, as well as the representatives of the European Community.

Although the results remained far from the "grand bargain of dollars for democracy" (WDW/20/91), the Soviet President was able, in the words of British Prime Minister John Major, to obtain the beginning of "a process of dialogue" or, in President Gorbachev's terms, "the first stage of understanding."

More important still was the announcement made by Presidents Bush and Gorbachev, after lunch in the U.S. Ambassador's residence, that they had reached agreement on the Strategic Arms Limitations Talks (START), concluding nine years of negotiations to reduce their offensive arsenals. As a result, President Bush agreed to meet President Gorbachev in Moscow, on July 30 and 31.

Afterwards, President Gorbachev participated in the "special session" of the Group of Seven that approved a program of assistance containing the following points: "special association" with the IMF and the World Bank, without lending rights; continuing cooperation from other international organizations, including the European Bank for Reconstruction and Development; technical assistance on energy, defense conversion, food distribution, nuclear safety and transportation; greater access to foreign markets; visits by the Summit's host, British Prime Minister Major, as well as by next year's Summit Chairman, German Chancellor Kohl.

The result corresponds quite closely to the "step by step approach" outlined almost a month before by Secretary of State Baker, in a speech he gave at the Aspen Institute in Berlin. They reveal, according to President Gorbachev, that "we are living in one civilization." The result also indicates that "the skeptics"--Canada, Japan and the United States--prevailed over "the earnest"--France, Germany and Italy, which led the German press to portray the London Summit as a difficult moment for Chancellor Kohl.

However, these were not the only results of the Summit. The Group of Seven issued a "political communique" dealing with the Middle East; the United Nations; Yugoslavia and the Baltics; South Africa; and arms control.

Additionally, the Summit's "economic declaration" addressed the following issues:

- economic policy: shared objectives of sustained recovery and price stability, by means of the commitment to implement fiscal and monetary policies which provide the basis for lower real interest rates. Also, a pledge to improve economic efficiency through greater competition and transparency;
- international trade: the successful conclusion of the Uruguay Round before the end of 1991, promising to "remain personally involved in this process;" ensuring that "regional integration is compatible with the multilateral trading system;" preference for mutually supportive trade and environmental policies; and an agreement to reduce the distortions caused by subsidized export credits and by tied aid;
- energy: to secure stable worldwide supplies and the encouragement of the commercial development of renewable energy sources; to support the European Community's initiative to establish a European Energy Charter, to promote free and undistorted energy trade;
- central and Eastern Europe: welcomed the spread of political and economic reform, as well as the mobilization by the G-24 of $31 billion in bilateral support for these countries;
- Soviet Union: to support the movement towards political and economic transformation and readiness to assist its integration into the world economy;

- the Middle East: welcomed the success of the Gulf Crisis Financial Coordination Group in mobilizing nearly $16 billion of assistance for those countries suffering the most direct economic impact of the Gulf Crisis.

- Developing countries and debt: Africa deserves special attention, especially the poorest; in the Asia-Pacific region, welcomed the efforts of many economies to assume new international responsibilities; in Latin America, "encouraged by the progress being made in carrying out genuine economic reforms and by developments in regional integration," welcomed "the continuing discussions on the Multilateral Investment Fund, under the Enterprise for the Americas Initiative which, together with other efforts, is helping to create the right climate for direct investment, freer trade and a reversal of capital flight;" finally, recognized the progress being made under the strengthened debt strategy."

- Environment: considered the United Nations Conference on Environment and Development (UNCED) "a landmark event;"

- Drugs: noted with satisfaction the progress made since the Houston Summit.

- Migration: expressed growing concern and the intention of returning to these issues at a future summit.

Thus, after all, the London Summit was not exclusively dedicated to a single issue.

I. 5. THE IMF'S SECOND WORLD ECONOMIC OUTLOOK (WEO) (WDW/29/91 - 16 OCTOBER 1991)

This year's advanced copy containing the excerpts of the second WEO was released to the press, by the staff of the IMF in Bangkok, Thailand, on October 10, just before the beginning of the annual Bank-Fund meetings, scheduled for October 12. As usual, the full text will be available by the end of October.

The advanced copy contains the following chapters: I) current developments and short-term prospects in the industrial and the developing countries; II) medium-term prospects and policy issues in the industrial countries, including baseline projections presented in a growth accounting framework; III) policy issues and medium-term projections for developing countries, including the implications of alternative assumptions about the external environment and domestic policies, as well as a discussion of the debt strategy; finally, five annexes are dedicated to the following topics: the collapse of trade among the former members of the Council for Mutual Economic Assistance; recent developments in the European Community; unemployment in the industrial countries; trade integration in the Western Hemisphere; and alternative measures of the debt burden of developing countries.

The rate of growth of the world economy, in 1991, is expected to be "a scant 1 percent," the lowest rate of the last nine years. In the industrial countries, output will decline from 2-1/2 percent in 1990 to 1-1/4 percent in 1991. As a result of the persistence of "cyclical divergences," the recession in Canada, the United Kingdom and the United States will be cushioned by the continued strong growth in Germany and Japan. In the developing countries as a group, in 1991, output is likely to decline by one half of a percent, due to the sharp contraction experienced by Eastern Europe--12 percent of GDP--as well as in the Soviet Union, and the destruction caused by the war in the Middle East. In the Western Hemisphere, economic activity "is expected to be sluggish in 1991, with a small rise in GDP reversing a decline of almost 1 percentage point last year."

By contrast, in 1992, "the world economy appears to be poised for a relatively moderate rebound, with output rising by 2-3/4 percent and world trade growing by 5 percent." This "projected pickup" is based on "the expectation of a recovery from recession in North America and the United Kingdom...the recent decline in oil prices, and the end of the uncertainties associated with the conflict in the Middle East."

The medium term baseline projections rest on the following set of technical assumptions: unchanged policies; constant real effective exchange rates among the major currencies; and a world oil price averaging $18.43 a barrel in 1991, rising to $18.61 a barrel in 1992 and remaining unchanged in real terms in subsequent years. On the basis of these assumptions, real GDP in the industrial countries is projected to recover from 1-1/2 percent in 1991 to an average of 3 percent, while inflation would fall from 4-1/2 percent in 1991 to 3-1/4 percent between 1992-96. Assuming a combination of a broadly favorable external economic environment and the implementation of "sound economic policies," in the developing countries, output growth is projected to reach an annual average of about 4 percent between 1993-96, while inflation would decline from 40 percent in 1991-92 to 23 percent in 1993-96.

The WEO also analyzes the implications for both the world economy and the developing countries of the rising demand for world saving resulting from the reconstruction in the Middle East, German unification and reform in Eastern Europe and the Soviet Union. First, the impact on world interest rates and incomes "is unlikely to be large." Second, the "best policy response" in the industrial countries is to intensify fiscal consolidation, "thereby increasing the supply of world saving." Third, greater saving can be achieved through measures such as "mutual reductions in military expenditures," as well as by means of reductions in other spending categories, such as industrial and agricultural subsidies.

Prospects for non-fuel commodity prices are not encouraging, due to "the slowdown in the expansion of the world economy, together with increasing production and stocks of agricultural commodities." These factors caused the fall of 8 percent in the average world price of non-fuel commodities in 1990, and will cause another decline in this average of 5-3/4 percent in 1991. Also contributing to this decline is the "increase in exports of metals and weak import demand for these commodities in the Soviet Union." By contrast, in 1992, the prices of almost all non-fuel commodities are expected to rebound by 3-1/4, as a result of the anticipated recovery of the world economy.

Finally, "failure to conclude" the Uruguay Round is characterized as "a major setback," because it "deprives the world of large welfare and efficiency gains." It is also a source of frustration for those developing countries and the "formerly centrally planned economies that have--with the encouragement of the Fund and the industrial countries--liberalized their trade systems unilaterally and pinned their hopes for growth and development on an outward-looking, market oriented strategy." Thus, the successful conclusion of the Uruguay Round is seen as "the most important single contribution of the industrial countries to a favorable evolution of the world economy."

I. 6. THE REDUCTION OF MILITARY EXPENDITURES (WDW/34/91 - 20 NOVEMBER 1991)

If the presence of the Soviet delegation dominated the last Fund-Bank meetings, held in Bangkok in October (WDW/30/91), the reduction of military expenditures pervaded all the communiques issued by the key committees that preceded the annual meetings.

On October 12, the Finance Ministers and the Central Bank Governors of the Group of Seven (G-7), among the measures to strengthen global savings, "emphasized the need for all countries to curb unproductive expenditures." The next day, the Ministers and Central Bank Governors of the Group of Ten (G-10) were more specific, saying that to strengthen global savings "they stressed the importance of reducing unproductive expenditures, including excessive military expenditures, in all countries." Also, the Development Committee, on October 14, "agreed that the reduction in global and in many regional tensions should help developing countries to reduce excessive and unproductive arms expenditures." Finally, the same day, the Interim Committee came out strongly in favor of "reassessing spending on defense and subsidies." The only discordant note was contained in the communique of the Group of Twenty Four developing countries, cautioning "against the involvement of the IMF and the World Bank in issues beyond their economic and financial mandate."

The credit for proposing the incorporation of the reduction of arms expenditures in the agenda, corresponds to Michel Camdessus, Managing Director of the IMF, who was invited to continue for a second term.

First of all, on October 15, Camdessus made of this issue one of the three central priorities identified in his opening remarks to the Board of Governors of the Fund and the Bank. Under the heading of how to find "enough savings in the world to meet both past needs for financing and those now emerging," Camdessus said it was "unacceptable" that "the potential imbalance between projected savings and intended investment can only be resolved by a further increase in real interest rates." This could be "avoidable, provided all countries act soon to improve their saving performance, specially by cutting unproductive spending." These assertions only confirmed what the G-7 and the G-10, as well as the Interim and Development Committees had already asserted.

However, Camdessus went ahead to suggest how "all countries could redouble their efforts to cut unproductive spending." He identified two specific examples. First, "one of the most glaring and pernicious examples of unproductive spending--excessive protective subsidies." He estimated that "the abolition of agricultural support measures in the industrial countries would allow a reduction in budgetary outlays of more than $100 billion a year." Second, military spending is the other "area where substantial savings are now possible." Furthermore, given its "important economic and financial effects," defense spending is "directly relevant to the work of the IMF." He estimated that a reduction of 20 percent from the level of 1989 in military expenditures would generate budgetary savings of $90 billion or more a year. Considering "too high, in present circumstances" that average military spending in the world is around 4.5 percent, Camdessus suggested that "if the countries whose military spending is relatively high can reduce it to the world average, they will release some $140 billion for other uses." In other terms, "these two areas taken together, they amount to several times--I repeat several times--the additional need for savings to meet the new global challenges." Consequently, "the problem of global savings is not so much one of scarcity as one of misuse."

Also, in several press conferences held during the annual meetings, Camdessus was more specific. First, he saw "a very basic debate involving, for every country, its possible survival in a fight with enemies, but also its possible survival in the fight against poverty, illiteracy and underdevelopment." Second, he made it very clear that "it is no longer the Managing Director who is speaking here," but "the entire membership." Finally, in his closing press conference, Camdessus said that the objective is "to reallocate toward development purposes a part of the spending that, by definition, does not directly profit economic development and poverty alleviation." Clarifying that "we don't intend in the IMF to add to our new conditionality a new item of military conditionality," Camdessus concluded characterizing the reduction of military expenditure as "a good investment in a medium term perspective."

Two weeks ago, the issue moved beyond these declarations, because Senator A. Cranston (D-CAL) presented a bill "to limit the provision of United States foreign assistance, including security assistance, to developing countries whose military expenditures do not exceed more than 3.6 percent of their gross national product." If approved, it will be known as the "Developing Countries Demilitarization Act of 1991." The figure of 3.6 percent of GNP corresponds to what the U.S. Secretary of Defense considers the adequate level of military spending for the United States in the post-Cold War. Also, the bill requires that "all U.S. representatives to multilateral lending and development assistance agencies and organizations" be instructed that "no United States funds" can be "provided as grants, loans, or collateral, directly or indirectly, through any multilateral agency or organization, to any developing country that expends more than 3.6 percent of its gross national product on military expenditures."

II. THE U.S. ECONOMY

II. 1. THE ECONOMIC STATE OF THE UNION (WDW/6/91 - 20 FEBRUARY 1991)

This year's Economic Report of the President is the second submitted by President Bush. The message of transmission to Congress addresses the following issues: 1) toward renewed growth; 2) supporting long-run growth; 3) flexibility and regulation; and 4) looking ahead.

President Bush begins offering an explanation of how "the longest peacetime economic expansion in U.S. history" came to a halt. He asserts that "the events of 1990 were a reminder that even a healthy economy can suffer shocks and short-term setbacks," with the immediate causes that gave the economy its final push into recession found in the oil price rise, caused by the events in the Persian Gulf, as well as the consequent plummeting of consumer confidence.

These shocks fell suddenly upon an economy that was "already growing slowly," particularly because of "worldwide increases in interest rates, tightened credit conditions, and the lingering effects of a successful attempt begun in 1988 by the Federal Reserve to prevent an acceleration of inflation."

This last remark was immediately interpreted as a criticism of the slowness by the Federal Reserve in lessening credit restrictions, even before Iraq's invasion of Kuwait. Nonetheless, the Chairman of the President's Council of Economic Advisers (CEA), Michael Boskin, refrained from any direct criticism of the Fed, saying that "probably with the benefit of hindsight, they might have been a bit too restrictive and perhaps should have eased a bit more sooner."

The present slowdown is described as a "temporary interruption," that "does not signal a decline in the basic long-term vitality of the U.S. economy," because there were also "important economic achievements in 1990." First, the containment of inflation, with the GNP fixed-weighted price index remaining in 1990 at the 4.5 percent level attained in 1989; second, the decline of the trade deficit, for the third consecutive year, to $77 billion in 1990; and third, labor productivity measured by GNP per worker still was in Germany and Japan only three fourths of that of the United States.

Looking ahead, the President states that "the current recession is expected to be mild and brief by historical standards," with economic growth "projected to recover by the middle of this year," while "inflation and interest rates are expected to decline."

This projection was immediately judged as a "rosy forecast," even when for 1991 real economic growth is projected to reach 0.9 percent, slightly above the 0.3 percent of 1990.

Several reasons are given to expect that the present downturn will be "short and shallow." First, inventories are low relative to sales; second, net exports are expected to improve, on account of stronger growth among trading partners and the decline in the value of the dollar; third, oil prices remain a source of uncertainty, but their downward trend is expected to persist; finally, both fiscal and monetary policies are said to be "well positioned to mitigate the downturn," although "there is a downside risk that the tightness in credit markets evident in 1990 will continue into 1991."

Looking at the prospects for renewing growth and to support it in the long run, the President points to the role of the recently adopted budgetary package, as well as to the tax system, emphasizing one of his most cherished and most controverted projects, the lowering of the capital gains tax. Additionally, "it is important that the Federal Reserve sustain money and credit growth necessary for the maintenance of sustained economic growth, especially during an economic downturn." Finally, banking reform "will help alleviate tight credit conditions," while a National Energy Strategy will strive at "removing unnecessary barriers to market forces so that ample supplies of reasonably priced energy can continue to foster economic growth."

In the long-run, among other measures, the President proposes raising the national saving rate and to lower the cost of capital, a sound national transportation infrastructure and excellence in education, as well as "to put power in the hands of individuals and families," and to increase the overall level of immigration, particularly of skilled workers.

The flexibility of the economy is attributed to "the reliance on free markets," indicating that the "lesson of the savings and loan crisis" is that it was caused by "poorly designed regulation, inadequate supervision, and limits on risk-reducing diversification." Also, economic growth and environmental protection are considered "compatible, but only if environmental goals reflect a careful cost-benefit analysis and if environmental regulation provides maximum flexibility to meet these goals at least cost."

Finally, in the global economy, the United States "will continue to push aggressively for open markets in all nations... and will continue to oppose protectionism." For this purpose, the Uruguay Round is recognized as the "top trade policy priority," with the negotiations with Mexico and on the Enterprise for the Americas, "to pave the way toward a hemispheric zone of free trade," mentioned also as priorities.

The Report concludes asserting that the United States "continues to demonstrate by shining example that political democracy and free markets reinforce each other and together lead to liberty and prosperity."

II. 2. A UNIPOLAR WORLD? (WDW/11/91 - 27 MARCH 1991)

One of the best indicators of the swiftness of today's changes can be found in the high mortality rate recently exhibited by rationalizations, paradigms or theologies, about the present state of the international system.

Remember the "end of history" thesis? Not so long ago, Mr. Francis Fukuyama, Deputy Director of the State Department's Policy Planning Staff, held that we had reached "the end point of mankind's ideological evolution," because of "the emergence of Western liberal democracy as the final form of human government."

Remember the declinists? They were the followers of Yale Professor Paul Kennedy's thesis that since "the rise of the western world to the twenty first century," imperial powers have succumbed to "overstretch" and that the United States was no exception to this rule.

This propensity to "transform every success and every failure in foreign affairs into a policy doctrine" was recently baptized by Leslie Gelb, in The New York Times, as "policy monotheism," calling attention to an article by the well-known columnist Charles Krauthammer, that appears in the last issue of the prestigious quarterly Foreign Affairs.

Titled "The Unipolar Moment," Krauthammer's article challenges the commonly held assumption that the natural successor of the passing bipolar world is a multipolar structure, in which the United States would share power with Japan and Germany. Mr. Krauthammer holds that "the immediate post-Cold War world is not multipolar. It is unipolar," because "the center of world power is the unchallenged superpower, the United States, attended by its Western allies."

Mr. Krauthammer defends himself from the accusation of "triumphalism" recalling that the article was based in a lecture delivered in Washington D.C., on 18 September 1990. In his own terms, "the case for an interventionist America atop a unipolar world could be made last September," since it "was the direct result of the collapse of the Soviet empire." These events revealed "the true geopolitical structure of the post-Cold War world, brought sharply into focus by the gulf crisis: a single pole of world power that consists of the United States at the apex of the industrial West."

Those who believe Japan and Germany are capable of becoming "the great pillars of the new multipolar world," are victims of "materialist illusion," built upon "the notion that economic power inevitably translates into geopolitical influence." The crisis in the Persian Gulf has "inadvertently revealed the unipolar structure of today's world."

Furthermore, admitting that "multipolarity will come in time," Mr. Krauthammer asserts that "the unipolar moment" could well last "perhaps another generation." The question is if another "major element of the post-Cold War reality," in the form of "the revival of American isolationism," will succeed in challenging "the vision of a unipolar world led by a dynamic America."

This resurgence of isolationism is found by Mr. Krauthammer in what he terms "the usual pockets of post-Vietnam liberal isolationism." However, he considers more worrisome those isolationist impulses found in the positions adopted recently by well known "realists," such as Georgetown University Professor Jeanne Kirkpatrick, suggesting that the United States should become "a normal country in a normal time."

Mr. Krauthammer argues that "international stability is never a given," because "the world does not sort itself out on its own." Consequently, "if America wants stability, it will have to create it," by means of practicing a foreign policy of "robust and difficult interventionism."

This was viewed by Mr. Gelb, in The New York Times, as the elevation of an event into a new "theology," or as only another chapter in the "short and tumultuous history of taking largely unique events --the fall of Eastern Europe and China to Communism, the Korean War, the Cuban missile crisis and Vietnam-- and elevating their purported lessons into policy dogmas, be they Truman Doctrines, Kennedy Corollaries or Vietnam Syndromes." Thus, concludes Mr. Gelb, "once again, the nation seems poised to bury what the ascendant high priests call the Vietnam Syndrome in order to establish yet another new world order."

The response came in Mr. Krauthammer's column in The Washington Post, titled "Bless Our Pax Americana," saying that "the end of the Cold War changed the structure of the world. The gulf war simply revealed it. Even the most obdurate deniers of unipolarity can no longer deny it." Mr. Krauthammer recalls that "before the gulf, Germany and Japan were being touted as the new superpowers, the pillars of the new multipolar world. One hears little of that nonsense now."

To conclude, since "it is hardly news to say that we are living in a unipolar world," Mr. Krauthammer asks "what are Gelb and his policy polytheists objecting to?" The response is that since the world "has entered a period of Pax Americana...Americans should like it--and exploit it."

The problem with these propositions, for Mr. Gelb, is that they "lead down the path to new dogma, to the single answer of the U.S. becoming the world's policeman under the umbrella of collective security."

II. 3. THE ISOLATIONIST IMPULSE (WDW/22/91 - 31 JULY 1991)

In opposition to those that have announced the recent emergence of a unipolar world (WDW/11/91), the debate about the nature of the post-Cold War international system has been joined by representatives of the oldest paradigm of U.S. foreign policy--the isolationist advise against "foreign entanglements."

For Charles Krauthammer, author of an article on "the lonely superpower" in the last issue of The New Republic, two major factions already exist within the ranks of today's neoisolationism. On the right, there are those that fear the corrupting influence of the world and demand that "America should return home." On the left, those conscious of the Vietnam legacy fear that U. S. activism will corrupt the world. Krauthammer characterizes the proponents of both strains as "endlessly resourceful in trying to escape the responsibilities that history placed on their shoulders."

Recently, the isolationist camp saw its ranks strengthened by the presence of two formidable exponents. One is William Hyland, the editor of the prestigious quarterly Foreign Affairs and the other is Alan Tonelson, until very recently the associate editor of the equally prestigious quarterly Foreign Policy. Hyland's proposal was presented in an op-ed published in The New York Times, titled "downgrade foreign policy." Tonelson's took the form of a more lengthy essay that appeared in The Atlantic Monthly.

For Hyland, the United States "has never been less threatened by foreign forces than it is today. But the unfortunate corollary is that never since the Great Depression has the threat to domestic well-being been greater." To have won the Cold War means that, for the United States, there is "about a decade of freedom ... to concentrate our resources, energy and attention on dealing with the domestic crisis." To implement this introspective turn, Hyland proposes the following four point program: 1) to start selectively disengaging abroad; 2) to avoid new entanglements; 3) to withdraw the bulk of the U.S. armed forces from overseas; and 4) to cut back drastically on foreign aid.

Tonelson's more lengthy contribution is more radical. To replace the globalism or the internationalism practiced by the foreign policy of the United States since the end of the Second World War, Tonelson proposes a foreign policy inspired by "interest-based thinking," under the following assumptions: 1) "accept today's anarchic system of competing nation-states as a given," concentrate on specific objectives; 2) "since the world lacks a commonly accepted referee," rely only on your own resources; 3) since "resources are always relatively scarce," the benefits sought should be aligned with the costs affordable and the means available.

On the basis of these assumptions, Tonelson proposes the following measures to implement an "interest-based" foreign policy: 1) rule out initiatives that siphon more wealth out than what they bring in; 2) avoid measures that only destroy wealth, such as military spending or inflation; 3) pursue self-reliance, instead of world efficiency; 4) rely on strength rather than on norms and institutions; 5) recognize that economic power has intrinsic strategic value 6) subordinate foreign policy to domestic concerns; 7) admit that modest policy means cannot build a congenial world order; 8) global change cannot be controlled or manipulated by a state's day-to-day foreign policy; 9) seek ideals, if enough revenues can be raised to pursue them; finally 10) shy away from any overarching strategy or conceptual approach.

"In a perilous strategic world, concludes Tonelson, it is usually a mistake to consider foreign policy to be an activist instrument at all." Consequently, foreign policy should avoid problems, reduce vulnerabilities and costs, maximize options, buy time and muddle through. Admittedly, these objectives "may be uninspiring" but they are "well suited to a strong, wealthy, geographically isolated country."

In the relations with the Soviet Union there would not be an overarching policy and the goals would be "predominantly negative." In the relations with friends and allies, Tonelson proposes two objectives. First, "to decouple America's security from that of its allies" and second, to "maintain access to European and East Asian markets not by wielding military and political clout but by the much more reliable strategy of insisting on complete reciprocity in trade and investment and restoring our leadership in a wide range of major industries."

Finally, in the developing world Tonelson suggests it is "time to disengage." However, "on the security side, the United States needs to worry about only one region: the Caribbean Basin." Two basic concerns are recognized in this region: "that no hostile outside force establish any significant military or intelligence presence, and that Mexico not fall apart economically and socially."

In these terms, the isolationist impulse as a source of inspiration of U.S. foreign policy seems to be quite vigorous. Still more relevant is that most of the presidential hopefuls from the Democratic Party seem to favor placing domestic concerns above foreign policy priorities.

II. 4. THE SLIP OF SALOMON BROTHERS
(WDW/24/91 - 11 SEPTEMBER 1991)

A principal player has violated the rules that prevail in the market for U.S. government securities, characterized by Assistant Secretary of the Treasury for Domestic Finance, Jerome H. Powell, as "the largest, most liquid, and most important financial market in the world." As the instrument through which the United States finances its national debt, the bond market is, consequently, "the bedrock of the world financial system." After all, this market handles daily more than $120 billion of marketable government securities, exceeding $1.3 trillion in 1990, up from $600 million in 1981.

At the height of the summer, on Friday, August 9, Salomon Brothers admitted that it had improperly exceeded the authorized limit in several auctions to purchase government securities, by submitting false bids in the name of customers without their authorization. On Wednesday, August 14, Salomon Brothers disclosed that the firm's three top executive officers--John Gutfreund, chairman and chief executive, Thomas W. Strauss, president, and John W. Meriwether, vice-chairman--knew about some of these illegal bids. On Sunday, August 18, amidst the news of the coup in the Soviet Union, Warren E. Buffet replaced John Gutfreund, who resigned as the firm's chairman and chief executive. Thus, unravelled this major scandal that erupted in the very exclusive world of U.S. Treasury's securities auctions.

The U.S. securities market is the instrument used by the Federal Reserve Board to administer the money supply that decisively influences domestic and international interest rates. Most of the operations are carried out by an "exclusive club" of 39 commercial and investment banks, designated by the Open Market Desk of the Federal Reserve System, through the Federal Reserve Bank of New York. The number of these primary dealers has changed over time. Originally, in 1960, there were 18 and presently 16 of the 39 are foreign corporations.

Treasury securities are sold in periodic auctions, organized according to a "regular and predictable schedule," amounting to "about 157 separate securities auctions each year." There are strict limits on the amount of securities that can be awarded to a single bidder in these auctions. According to Assistant Secretary Powell, the purpose of these limits is "to ensure broad distribution of Treasury securities and to make it less likely that ownership of Treasury securities become concentrated in a few hands as a result of the auction."

This maximum award limitation was originally set 29 years ago, at 25 percent of the total offering, and it has undergone several modifications. Presently, any single bidder cannot be awarded more than 35 percent of any public offering of Treasury securities.

This last limitation was precisely the rule violated by Salomon Brothers. As revealed in a 52 page report to Congress, Salomon's new chairman, Warren Buffett, admitted that in the auction held on May 22, 1991, Salomon controlled 94 percent of the $12.25 billion in two-year notes offered. As described by <u>The Wall Street Journal</u>, in what almost sounds as an understatement, "this overwhelming control of the May two-year auction enabled Salomon to corner a good portion of the market."

Furthermore, this was only one of several instances in which Salomon deliberately crossed the authorized limit, far beyond the 35 percent authorized. To make matters even worse, it took Salomon's chief executives more than four months before they admitted that they knew about such irregularities.

Up to now, there have been at least three different reactions to these astonishing revelations. First, the new Salomon manager, with a lot of what <u>The Wall Street Journal</u> called "Nebraska charm," prescribed "tough rules, tough cops and tough prosecutors." The reason is that since "huge markets attract people who measure themselves by money. Sooner or later they're going to get themselves in trouble."

This coincides with the position adopted by several members of Congress, who expressed "impatience" with present regulations, as Representative Ed Markey (D-Mass.) who declared that "the rules that are on the books are clearly unacceptable." More graphically, Representative Jim Slattery (D-Kan.) said Salomon executives deserved "nothing but a swift kick in the butt."

The Washington Post, in an editorial on "Rigging the Bond Market," probably said it best: "it's pretty clear that this country's recent infatuation with financial deregulation is dead. The dewey-eyed idea that financial markets are self-regulating, or that the trading-firms are self-policing, or that regulation is merely an outmoded and unneeded burden on business efficiency are revealed by many unhappy experiences of the recent past--but none more than this one--to be a dangerous fantasy."

The regulators, such as the Treasury Department, the Federal Reserve and the Securities and Exchange Commission (SEC), urged caution. Assistant Secretary Powell declared, until a thorough investigation is "reasonably complete, we would prefer to withhold judgment as to the adequacy of existing laws and regulations, as well as existing enforcement capabilities and practices."

Finally, there is the reaction of those, like the Nobel Prize-winning economist Milton Friedman, who blame the system of primary dealers for encouraging collusion and domination of the market by what he calls "a cabal." Consequently, what is prescribed is a less secretive and less restrictive system of auctions.

III. THE SOVIET UNION

III. 1. WHITER THE SOVIET UNION? (WDW/3/91 - 30 JANUARY 1991)

It is a sign of the times that the heads of the seven major industrialized economies, at the Houston Economic Summit of July 1990, requested from the International Monetary Fund (IMF) to convene the World Bank, the Organization for Economic Co-operation and Development (OECD) and the European Bank for Reconstruction and Development (EBRD) for undertaking, in close consultation with the Commission of the European Communities (EC), "a detailed study of the Soviet economy, make recommendations for its reform, and establish the criteria under which Western economic assistance could effectively support such reforms."

It is also a sign of the times that these four organizations visited the Soviet Union, before the end of last year, where they "were received with much courtesy and helpfulness," as well as that the summary and recommendations of their study, delivered on deadline, were made available to the public, on December 21 1990.

The title of the study released is The Economy of the USSR: Summary and Recommendations and it includes the following sections: 1) the current state of the economy of the USSR; 2) the present course of reform; 3) alternative approaches to reform; 4) main elements of a recommended strategy; and 5) criteria for, and forms of, external assistance.

On the state of the Soviet economy, the study reveals that the deceleration that started at least since the early seventies, "has recently turned into a fall in output and employment, accompanied by evident and growing imbalances."

The economic results of 1990, released recently in Moscow, amply confirm this diagnosis. According to a Tass report, in the Soviet Union in 1990 GNP fell by 2%, national gross income dropped by 4% and productivity contracted by 3%. Also, foreign trade was estimated to have fallen by 6.9% and the ruble overhang, feeding greater inflation as a result of increases in income amidst the generalized fall in production, reached 132.7 billion in 1990 from 104.7 billion in 1989.

The present state of the Soviet economy is characterized as one in which "the old planning system has broken down but has not been dismantled; meanwhile, the structures vital to the functioning of a market have yet to be put in place."

This poses the issue of sequencing, or the alternative between radical vs. gradual reform. Declaring themselves ignorant of the existence of a gradual path to reform, the institutions recognize "two broad alternative approaches to sequencing...a conservative approach, and a more radical approach," which they recommend. In the terms of MIT Professor R. Dornbusch, "radical change is the only realistic option," in the Soviet Union.

Thus, the international organizations propose to tackle simultaneously the need for stabilization and structural reform. The process of stabilization fundamentally entails "a very sharp reduction in the deficit of the general government --from its 1990 level of some 8 percent of GDP; the absorption of excess money holdings; a strong hold on credit creation; and movement towards positive real interest rates." Furthermore, recognizing that this might entail some unwanted disruption, the institutions recommend that "in the short run this should be supported by an incomes policy which would set both a floor for social reasons and a ceiling on the growth of incomes."

Nonetheless, "financial stabilization by itself does nothing to establish a market," or to address the issue of structural reform. For this last purpose, it is necessary to implement the following measures: 1) rapid and comprehensive price liberalization, as the appropriate response to shortages; 2) progress toward trade liberalization, with the continuation in the near term of subsidies of rents and the prices of a few essential consumer goods; 3) a broadening of the parallel market for foreign exchange, with the unification of the exchange market for current account transactions within a year; 4) the establishment of private ownership rights and the elimination of controls that prevent competition and discourage efficiency; finally, 5) since "the necessary economic reform program cannot be implemented without an initial decline in output and employment...it is therefore essential that a safety net be in place at the start of the program."

As for the role of foreign assistance, the international institutions recommend that technical and humanitarian assistance be provided, while "general balance of payments assistance or project assistance" will be useful only "when a comprehensive program of systemic reforms has begun to be implemented, leading to a closer integration of the economy of the USSR into the world economy."

The report served as background for the decision, announced on December 12 by the United States, to propose that the status of "special associate" be granted to the Soviet Union at the IMF and the World Bank, "to advance the process of economic reform and liberalization."

However, recent events in the Baltics have put everything on hold. As declared by the British Chancellor of the Exchequer, Norman Lamont, at the conclusion of the last Group of Seven (G-7) meeting in New York, on January 20-21, "any question of any relationship with the IMF would have to be considered very cautiously and is not on the agenda at the moment."

III. 2. THE TRIUMPH OF MONOECONOMICS (WDW/18/91 - 3 JULY 1991)

Ten years ago, Albert Hirschman in his classic "The Rise and Decline of Development Economics" foresaw the demise of the claim that a separate kind of economic analysis, known as the subdiscipline of development economics, was required to deal with the special case of the developing countries. As anticipated, the eighties witnessed the almost unchallenged application throughout the developing countries of the set of "simple, yet 'powerful' theorems" of traditional economic analysis, proving in Hirschman's terms that, as with physics, "there is only one economics."

In practice, this aspiration to universality of "orthodox economics" remained far from its mark while at least one third of humanity was living under an alternative economic system. However, several recent events indicate that what was known as "orthodox economics" now furnishes the principles on which are based the policy guidelines observed in almost all the economies of the world.

This rapid succession of events started with the news, floated by British sources, that consultations were in progress on the decision to invite President Gorbachev to the London Summit of seven industrialized countries. Then came the decision, adopted by the Finance Ministers and central bankers of the G-Seven, to offer the Soviet Union "associate member status" in the Bretton Woods institutions. Finally, last week, the Council on Mutual Economic Assistance (CMEA), the process of economic integration among what were known as the "socialist economies", closed its doors.

President Gorbachev's participation in the G-Seven was linked to the presentation of a request for massive financial assistance to support the process of transition of the Soviet Union towards a market economy.

Highly controversial, the proposal was baptized "a grand bargain" of "dollars for democracy" and it was prepared by Soviet economist Grigory Yavlinski, with the technical assistance of a group of Harvard University experts in transitions from socialism. In the terms of one of these best known experts, Professor Jeffrey Sachs, the estimated cost of the package would be between $30 to $50 billion a year over a period of five years.

Reactions to the proposal came from several quarters. For instance, the well-known Soviet advisor G. Arbatov dismissed it as a sell-out of "socialist soul." Also, expressing the reaction caused in some of the industrialized countries, instead of the much publicized "grand bargain," Secretary Baker proposed a "step by step" approach, to be applied "as the Soviets demonstrate the will to help themselves."

Among the elements of the gradual approach appear the abolition of impediments to private investment in energy development and an effort to improve the food distribution system through market incentives. Also, the package includes the conversion of Soviet defense industries to the production of consumer goods and it offers technical advice to promote education in market principles and practices, as well as more open trading relationships.

As part of the "step by step" approach, it was announced that Mr. Gorbachev would be received by the G-Seven, on July 17, after the conclusion of the London Summit and that he would be offered "associate member status" in the IMF and the World Bank. The meaning of such status remains vague, since it has never existed before, its purpose apparently is to give access to technical assistance, though not immediately to financial resources. In the terms of U.S. Treasury Secretary Brady, after the London meeting of Ministers of Finance and central bankers of the G-Seven, "large sums of money are not what we are talking about here."

Finally, last Friday in Budapest, the member governments decided to shut down the doors of the Council for Mutual Economic Assistance (CMEA). The closing ceremony was only a formality, given the previous collapse in trade relations that resulted from the profound changes recently experienced in some of the member countries--Bulgaria, Cuba, Czechoslovakia, Hungary, Mongolia, Poland, Romania, the Soviet Union and Vietnam.

Cuba, Mongolia and Vietnam favored the creation of a successor institution, an Organization for Economic Cooperation. Czechoslovakia, Hungary and Poland countered with the proposal to create an organization for European members only, to examine how to end the collapse in trade and how to move ahead, toward a market economy. In the end, only a committee was designated to determine, during the next 90 days, how to liquidate the assets owned jointly by the member countries.

In the immediate future, it can be expected that this trend towards the universalization of monoeconomics will be intensified, leading to the application of a single set of universally valid principles, throughout the rest of the world economic system. This does not mean that the present system will lack diversity. Preachers of uniformity should be reminded that there cannot be found two capitalist systems that are exactly alike. Neither should attention be paid to those that see, in this universalization of capitalism, the beginning of an age of perpetual harmony. Those who harbor such illusions should be reminded that the major capitalist powers were among the main rivals that confronted each other in the two great conflagrations experienced in this century.

III. 3. THE GRAND BARGAIN (WDW/20/91 - 17 JULY 1991)

Today, President Gorbachev "travels to Canosa," as The New York Times said, "hat in hand...to win some relief for his nation's rheumatic economy."

Preceded by a succession of fascinating maneuvers to get himself invited to the London Summit of the seven industrialized economies, the Soviet leader has proven, once again, that he has the capacity to startle and to gain the world's attention.

At the center of this gambit is the "Grand Bargain" of "dollars for democracy," drafted by the Joint Working Group on Western Cooperation in the Soviet Transformation to Democracy and the Market Economy. This group was cochaired by Soviet economist Grigory Yavlinsky, former deputy prime minister of the Russian republic and author of the previously rejected "500 days" crash program and by Professor Graham Allison, former dean of Harvard's Kennedy School of Government, home of one of the most prestigious teams of "experts on revamping socialist economies." Among the better known members of the team appears none other than Harvard Professor Jeffrey Sachs, also known as the "architect of the shock therapy" applied to Poland, as well as MIT Professor Stanley Fischer, former chief economist of the World Bank.

Also impressive has been the quite effective public relations blitz that started with the reproduction of excerpts in The Financial Times and by an editorial endorsement by The New York Times, in advance of the proposal's formal presentation, held in Cambridge, Mass. on June 14 in front of reporters from all over the world.

The excitement peaked when it was learned that, during the following weekend, President Gorbachev had met privately with Mr.

Yavlinsky, at the Kremlin for one hour, in what was described by "one source close to Mr. Yavlinsky" as "a wonderful meeting." Also, on Sunday June 16, the arrival of Professor Allison in Moscow, unleashed speculation that this was "proof that the plan was being reviewed at the highest level."

The proposed program places the Soviet economy at a critical juncture, characterized as reform or chaos, holding that the Soviet system cannot be reformed, "it must be replaced." For this purpose, the program is built on what are characterized as the six pillars of a market economy: private property; macroeconomic stabilization; price liberalization; privatization of state enterprises; openness to international market forces; and limitation of state intervention.

In money terms, the program requires at least $30 billion a year, during five years. The justification for spending this amount, according to Professor Sachs, is that "if you don't like what is happening in Yugoslavia, you really won't like what will happen in the Soviet Union." Because "the presence of 30,000 nuclear warheads in the Soviet Union make instability in that country even more dangerous." If that would be the cost of creating "a stable, democratic Soviet Union," commented Morton Kondracke in The Wall Street Journal, "that would be a grand bargain, indeed."

This initial enthusiasm was quickly tempered by some formidable skeptics. For instance, Secretary of State Baker countered with a "step by step approach," comprising associate membership in the IMF and the World Bank, as well as oil exploration and food distribution, the conversion of military industries, education in market principles and trade benefits. Also, at the conclusion of the summit preparatory meeting of ministers of finance and central bankers from the G-Seven, Secretary Brady emphasized that there had been no discussion about large sums of money.

Other reactions can be briefly summarized. For instance, Henry Kissinger cautioned that "the United States is in danger of finding itself propelled by well-meaning enthusiasts" and reminded that the United States is "a country with interests and not a foundation with charitable objectives."

Other reactions were even more poignant. For instance, one said Soviet democracy was "cheap at $100 billion;" while another saw the Grand Bargain as a "big rip-off." Zbigniew Brzezinski asked for "help for the new Russian revolution" and The New York Times editorialized that the time had come for "disarming the Soviets, with aid."

As the skepticism mounted in some industrialized countries, Moscow's preliminary enthusiasm was also being tempered by a sense of realism. In the terms of Yevgeny Primakov, one of Mr. Gorbachev's closest advisers, "there will be no manna from heaven." Additionally, the Kremlin said that it was looking for investments at the London Summit, not for cash. At a press conference, President Gorbachev declared "some of you may think that Gorbachev is going to crawl on his knees and plead for assistance...this is just not serious." Finally, a 23 page letter sent by President Gorbachev to the G-Seven leaders contained "no surprises." As Prime Minister Brian Mulroney of Canada declared, upon his arrival in London, "I don't think you will see either miracles or blank checks."

As the possibility of a "grand bargain" vanished, "the world's greatest political acrobat," as R. Lawrence called the Soviet President in The Journal of Commerce, should be credited, at least, with an amazing capacity to attract the limelight.

III. 4. THE SOVIET UNION JOINS THE IMF (WDW/30/91 23 - OCTOBER 1991)

It is a sign of the times that the economic difficulties of the Soviet Union were the dominant issue during the last annual meetings of the Bretton Woods institutions, held in Bangkok, Thailand, from 12 to 17 October.

As described by Paul Blustein, in The Washington Post, this was illustrated by the virtual anonymity of Mr. Angel Gurria, Mexico's chief debt negotiator, who for many years had the dubious honor of occupying the center stage in these meetings. This time, "the Soviet Union's economic crisis overshadowed all else, and the limelight shone almost exclusively on Grigory Yavlinsky, the passionate, radical economist heading the Soviet delegation," Blustein reported from Bangkok.

The historical significance of Soviet participation in these meetings was highlighted by the Managing Director of the IMF, when he said that for the Bretton Woods institutions, "a long-awaited opportunity...to become truly universal... is drawing close."

Moreover, this recently achieved universality was poignantly illustrated by a press release informing that on October 15, Albania became the 156th. member of the IMF. For the time being, by contrast, the Soviet Union only achieved the status of "special association," by means of an agreement signed in Moscow between Managing Director Camdessus and President Gorbachev.

This "special association" constitutes also a historical first. It used to be that, at the IMF, no half-way houses were permitted in matters of membership.

The agreement, made public on October 5 simultaneously in Washington and Bangkok, specifies the terms and conditions for the two signatories. The Fund will "conduct reviews of the economy and economic policies of the U.S.S.R., similar to the consultations conducted by the Fund with its members." It will also provide technical assistance "in the areas of macroeconomic policies and financial programming, exchange and payments, fiscal, monetary, banking and related issues, and in statistics," as well as training courses and it will "make available to the U.S.S.R. documents directly related to the functioning of the Special Association." The U.S.S.R. will be invited to participate in the Fund's Executive Board meetings to discuss issues covered in the agreement, as well as to the annual meetings of the Fund, which led to the presence of Mr. Yavlinsky in Bangkok. Finally, in a carefully drafted paragraph, it is said that "the Fund shall give favorable consideration to requests from the Union Republics...under terms and conditions to be agreed between the Fund and the relevant Union Republic." However, it is added that "the Fund shall inform the U.S.S.R. of any request by a Union Republic."

For its part, the Soviet Union will be expected to provide information, "as is required from members of the Fund," that will be made available through Fund publications. Also, the Fund will open and operate a "resident office" in the Soviet Union, that will enjoy "a status and privileges and immunities at least as favorable as those conferred by the U.S.S.R. upon the resident office on any other international financial organization." It is specified that the Soviet Union will contribute to "the costs incurred by the Fund under the Special Association" in an amount that will be "determined by agreement" between both. Finally, the "special association" can be terminated by the admission of the Soviet Union to full membership in the Fund, as well as by unilateral declaration, submitted three months in advance by one of the parties.

There were other issues at the Bangkok meetings, although none received as much attention. For instance, the Interim Committee of the Board of Governors of the IMF "observed that the pronounced slowdown of world economic growth this year was expected to be followed in 1992 by a moderate recovery." Also, the Interim Committee expressed concern for the delays in the Uruguay Round and supported the international debt strategy.

The Development Committee agreed that the reduction of poverty and the promotion of sustainable economic growth should be the top priorities for the World Bank and the Fund in the nineties, while the Group of 24 developing countries asserted that these goals cannot be reached without "substantial external resources" to support economic adjustment programs.

Another issue that surfaced during the meetings, generating some anxieties, was the reduction of arms expenditures as one of the lending criteria of both the World Bank and the Fund. The new President of the World Bank, Lewis Preston, at a press conference, stated that loans may be withheld from countries that spend too much in armaments. Also, the Managing Director of the IMF said that although this was not a "new item of military conditionality," the Fund and the Bank "have to be very outspoken in pressing this point. We want to put our experience and knowledge at the disposal of our members in proceeding effectively in the reallocation of resources." An immediate reaction was contained in the communique of the G-24, cautioning "against the involvement of the Fund and the Bank in issues beyond their strict economic and financial mandate."

To summarize the results, in Hirschman's terms, the Bangkok meetings may be known as those where "the triumph of monoeconomics" (WDW/18/91) became institutionalized, through the universalization of the IMF and the World Bank.

IV. THE DEVELOPING ECONOMIES

IV. 1. THE OUTLOOK FOR NON-FUEL COMMODITIES (WDW/2/91 - 23 JANUARY 1991)

During the second half of the eighties, the prices of non-fuel commodities experienced one of their characteristic "roller-coaster" rides. In 1986, real commodity prices registered their lowest level since the depression of the thirties. The World Bank's aggregate index for non-fuel commodities (1979-81=100) remained at the same level of 80.5 between 1985 and the second half of 1987, when the current dollar index began increasing after the record low of 74.4 it registered in the first quarter of 1987. A broad-based rally from these record lows followed, between 1986 and 1989, increasing the current dollar index of non-fuel commodities by 19%. Even so, primary commodity prices barely kept up with the increases in the value of manufactured exports. The World Bank's non-fuel commodity price index increased only by 1.3% over the 1986-89 period, after it was deflated by the Manufactured Unit Value (MUV) index.

In 1990, this upward trend came to an end, since in aggregate nominal terms the prices of non-fuel primary commodity prices declined by 6.8%. Thus, since the MUV index in 1990 was estimated to increase by 6.3%, the non-fuel commodity index measured in constant dollars fell 12.3%.

The short term prospects are not encouraging. Non-fuel commodity prices in 1991 are forecast to remain unchanged, while the MUV index is expected to increase by 9%, which amounts in real terms to a decline of 8.3%. By contrast, in 1992, an increase of 3.3% in the prices of non-fuel commodities in aggregate nominal terms will make the constant dollar index turn upwards, by 2.1%.

Major uncertainties appear in the short-run. If crude oil prices remain for a long period above $20 per barrel, "most other primary commodity prices, especially industrial raw materials, could be expected to fall as a result of the impact of high energy prices and lowered GNP growth on demand for investment and consumer goods."

These are some of the short-term projections presented by the World Bank in the recently released, two-volume, study on the Price Prospects for Major Primary Commodities.

In the long-run, assuming steady increases in world economic growth, over the 1993-2000 period, the non-fuel index for 33 commodities is expected to increase by 11.7% in constant dollar terms. However, over the 2000-2005 period, non-fuel commodity prices once again are expected to decline in real terms.

Several assumptions about the performance of the world economy underlie these long term forecasts, particularly concerning the evolution of certain trends that emerged in the eighties. First, growing integration of the world economy through trade will continue, as evidenced by the steady increase in the ratio of trade to GDP in the major economies. Second, the "astonishing" expansion of financial markets will continue outfacing the growth of international trade. Third, the direction and composition of international financial flows will continue, with Japan remaining the largest supplier of international capital. Fourth, the continuation of the steady decline in the share of raw materials in international trade. Finally, the persistence of the trend towards the concentration of trade flows within three major trading blocs --North America, Western Europe and the Western Pacific.

On the basis of these assumptions, the industrial countries are expected to perform "markedly better" in the nineties. Real GDP growth is expected to average 3% over the 1990-2005 period, with per capita real income in these countries expected to rise at a yearly average of 2.6%, by contrast with the 2.3% experienced during the eighties. The average rate of inflation in these countries is expected to remain fairly low, between 3% and 4% yearly.

By contrast, the prospects for the low and middle income countries in the nineties "are less clear and mixed," since average per capita real income is projected to rise at a yearly rate of 3%, based on a rate of growth of 5% in GDP. But this average hides considerable differences among different groups of countries.

For the severely indebted middle-income countries the average annual growth rate of per capita income is expected to increase by 2% in the nineties, from a yearly average of -0.5% in the eighties. However, this projection is based on what is termed "the optimistic assumption of a gradual decline in the ratio of debt service to exports and a resumption of net financial transfers."

These projections of economic activity and world price levels indicate that demand for major primary commodities will continue "to shift markedly." First, growth in the demand for primary commodities in the industrialized countries is likely to decelerate, while in the developing countries it will accelerate, particularly in East and South Asia, as well as in Eastern Europe. Second, several factors indicate that the commodity composition of demand will also shift over the 1990-2005 period. Changes in industrial efficiency and innovations will increase the demand for "exotic raw and semi-processed materials, at the expense of basic commodities." Also, environmental concerns will generate demand for "cleaner materials and fuels, while the industrialization of low and middle-income countries will demand standard industrial raw materials and consumer staples."

IV. 2. THE EXTERNAL DEBT OF DEVELOPING COUNTRIES (WDW/5/91 - 13 FEBRUARY 1991)

Remember the debt crisis? This year's World Debt Tables, issued in two volumes by the World Bank at the end of last year, admit that it is now "somewhat less severe than two years ago," although it is "far from over."

Several factors have contributed to an improvement in debt indicators, such as the application of the Brady Initiative, the easing of terms on Paris Club rescheduling, the continuation of other programs of debt relief and rescheduling and the strong export performance of some indebted countries. By contrast, the persistence of the crisis manifests itself in the failure of some debtor countries to adjust, in the substantial increase in arrears and in the heavy burden of official debt and debt service in some countries, with the limited availability of external finance "underlying many of these problems."

This year's Tables contain several new features: first, aggregate net flows and net transfers to each country; second, a reconciliation of stock and flow data; third, expected disbursements from the stock of undisbursed debt for the next ten years; fourth, separate treatment of East European debt and capital flows; and fifth, a further breakdown of the private creditor group, with bonds shown separately.

Some of the highlights contained in the first volume of Analysis and Summary Tables are:

1) At the end of 1990, the total external debt of developing countries was expected to reach $1,341 billion, more than 6 percent above the $1,261 billion it reached in 1989.

2) Total external debt owed by Latin America and the Caribbean in 1990 is estimated to have reached $428.6 billion, from $422.1 billion in 1989, or almost 47.9 percent of GNP and 261 percent of total exports of goods and services.

3) The composition of developing-country debt "has changed dramatically," with official debt, including the use of IMF credit, accounting for 46 percent in 1990, compared with 32 percent in 1984. By contrast, long-term debt from private sources is expected to fall in 1990 to $494 billion, from $505 in 1989.

4) Despite the increase in total debt expected for 1990, the overall debt-export ratio is projected to fall slightly, from 186.6 in 1989 to 183.1 in 1990.

5) The implementation of the Brady Initiative, in the cases of Costa Rica, Mexico, the Philippines and Venezuela, reduced commercial bank debt by $11.5 billion and debt forgiveness by bilateral creditors reduced debt by $5 billion, while the Paris Club provided increased debt service relief by lengthening maturities and grace periods.

6) The stock of arrears is expected to increase from $35.0 billion in 1989 to $42.2 billion in 1990, particularly because of the continued growth in arrears on commercial banks' loans to several Latin American countries, such as Argentina, Brazil, Ecuador, Nicaragua, Panama and Peru, with the last three also exhibiting large arrears to multilateral lenders.

7) In 1989, Chile and Costa Rica achieved the remarkable accomplishment of graduating themselves out of the group of severely indebted middle income countries (SIMICs), with both countries experiencing rapid export growth. In the case of Chile, extensive debt-equity swaps and buybacks, applied from 1984 to 1989, reduced commercial bank debt by 40 percent.

8) The depreciation of the dollar, in 1990, increased the dollar value of the stock of debt denominated in nondollar currencies by $46 billion, the largest factor in the increase of debt stock in the year.

9) Aggregate net resource flows to developing countries, including net flows of long-term lending, foreign direct investment and official grants, reached $71 billion in 1990, an increase of 12.2 percent from the $63.3 billion of 1989. The main factor that explains this increase was the net lending from official sources to purchase collateral or buyback debt within the Brady Initiative.

10) Aggregate net transfers --the difference between aggregate net resource flows and servicing costs of the stocks of external capital, such as interest on debt and reinvested and remitted profits on the stock of foreign direct investment-- reached $9.3 billion in 1990.

In order to achieve its full potential, the Brady Initiative is said to need "some fine tuning." First, because the operations already completed have taken some time, it will be necessary to obtain continued official support and additional official resources. Also, the Brady Initiative does not address the heavy burden of official debt and debt service that is particularly acute in the severely indebted low income countries. Finally, even before it was announced, there was a trend towards the transfer of risk from private to official creditors, that the Brady Initiative has accentuated. Consequently, caution is asked regarding the increased exposure of multilateral institutions, because their creditworthiness needs to be protected.

The analysis of the potential impact of the Gulf crisis on the debtor countries is centered on a projected increase in oil prices, that will affect negatively the vast majority of indebted countries, except for a few energy exporters. However, all debtors would be affected if, as a consequence, there is an outburst of inflationary pressures and higher interest rates in the creditor countries.

IV. 3. THE CHALLENGE OF DEVELOPMENT, ACCORDING TO THE WORLD BANK (WDW/19/91 - 10 JULY 1991)

This year's World Development Report (WDR) is dedicated to the "challenge of development" and together with last year's on poverty and next year's on the environment, according to President Barber Conable, all form part of a trilogy that will "provide a comprehensive overview of the development agenda." The World Bank thus performs the substantive role of agenda setter, acquired on account of its unparalleled expenditures on development research (WDW/12/91), as well as by its role of main provider of development finance (a record $22.7 billion in new commitments in FY 91).

To the credit of departing President Conable, this agenda comprises three basic issues: development, equity and sustainability--quite a change from the years in which the Bank was under the spell of a single-minded orthodoxy. By contrast, the most salient trait of this year's WDR is the pragmatism it exhibits when it addresses the whole spectrum of development issues. In its own terms, "perhaps the clearest lesson from work on development over the past thirty years is that there is a premium on pragmatism and an open mind."

A few examples will suffice to illustrate this pragmatism that pervades this year's WDR. For instance, "the central issue in development, and the principal issue of the Report, is the interaction between governments and markets." However, far from taking sides, "this is not a question of intervention or laissez faire--a popular dichotomy, but a false one." Or better still, "it is not a question of state or market: each has a large and irreplaceable role."

Another example of this lack of ideological affiliation can be found in the treatment the Report gives to "government directed industrialization--financed from the proceeds of agriculture." By contrast with those that now attribute import substitution to a single culprit, the REPORT admits that "the major institutions (the United Nations, the World Bank, and several bilateral aid agencies forming part of Overseas Development Assistance) supported these views with varying degrees of enthusiasm."

Similar treatment is granted to the "remarkable recent achievements" of the newly industrialized economies of East Asia. Instead of portraying them as evidence of market success, the REPORT asserts that "these economies refute the case for thoroughgoing dirigisme as convincingly as they refute the case for laissez faire."

Finally, the role of the state is described in the following terms: "governments need to do less in those areas where markets work," while "at the same time governments need to do more in those areas where markets alone cannot be relied upon."

Welcome as it is, this pragmatic orientation cannot avoid certain pitfalls.

For instance, in an effort to downplay the role of external factors, several studies are mentioned that have found no relationship between "differences in growth rates and the magnitude of external shocks." Rather, it would have been more appropriate to recognize that economic performance is the result of the convergence of both external and internal factors and that there is no preordained proportion in which these factors exercise their influence.

The Report does not seem to have made up its mind between two alternative views on what it calls "thinking on development." On one side, it asserts that "progress has not moved along a straight line from darkness to light. Instead there have been successes and failures, a gradual accumulation of knowledge and insight." However, by opposition to this cumulative vision, at times, the Report seems to prefer the succession of contending paradigms as the best description of the "evolution of development thought." This begs the question, unfortunately left unanswered, if the "new thinking on development" constitutes a whole "new paradigm."

Finally, the narrative style adopted by the Report consists in the presentation of numerous individual cases to illustrate each and every generalization presented. This form of presentation, after a while, not only becomes tiresome, but proves that cases can be found within the development experience to support almost any generalization. In this way, the Report does not live to its own promise, that "in development, generalizations can be as rash as unbending commitments to theories," because "there is no magic cure," and "there is more than one way to succeed--if only because there are many different sorts of success."

The Report suggests an "agenda for action," spelling out the responsibilities of "the industrial countries, the developing countries and the donor community."

First, the industrial countries are asked to roll back restrictions on trade and to reform macroeconomic policy. Second, the multilateral financial institutions and the donor countries are asked to increase financing; to support policy reforms; and to encourage sustainable growth. Third, "the prospects of the developing countries are principally in their own hands," and for this purpose they need to: invest in people; improve the climate for enterprise; open their economies to international trade and investment; and get macroeconomic policy right.

To conclude, "the best hope for meeting the challenge of development" is found in those "strategies in which governments support rather than supplant competitive markets."

IV. 4. POVERTY REDUCTION REMAINS THE WORLD BANK'S BASIC MISSION (WDW/32/91 - 6 NOVEMBER 1991)

It is a recognition of the legacy of outgoing World Bank President Barber Conable that his successor, Lewis Preston, at the opening of the annual meetings, held in Bangkok, emphasized his personal commitment to the reduction of poverty, which he said remains the World Bank Group's "overarching objective." Paying tribute to his predecessor, Mr. Preston said: "he repeatedly emphasized the importance of human and environmental aspects of development, and strengthened the Bank's work in these areas. And amidst the urgent need for economic adjustment, he rededicated the Bank to its fundamental objective of reducing poverty."

Ever since the 1990 World Development Report (WDR) was dedicated to world poverty, the signal was sent that the World Bank, under the stewardship of President Conable, had moved away from relatively more ideological issues towards the "ultimate objective" of reducing poverty.

In accordance with this "fundamental imperative," one of the last policy papers prefaced by President Conable, Assistance Strategies to Reduce Poverty, was issued last August. The paper recalls the main elements of the proposal outlined in the 1990 WDR, with the purpose of showing how the strategy to reduce poverty can be "fully integrated into Bank operations."

Beyond the discussion about the soundness of the strategy, or the completeness of its constitutive elements, the fact that the main source of development finance has outlined the way in which it will incorporate the reduction of poverty into its operations assures that this objective will become cardinal for the global development agenda.

The paper recalls the two basic elements of the strategy. First, the encouragement of "broadly based economic growth," by means of making productive use of labor, "the poor's most abundant resource." The means identified to carry out this objective are the establishment of "incentive structures," such as competitive exchange rates and avoidance of excessive protection of manufacturing, to encourage agriculture and labor-intensive manufacturing. This is not considered enough, it is also necessary that public expenditures support "the activities in which the poor are engaged," ensuring that the delivery of services, such as roads, irrigation and extension services, is not biased against the poor.

Second, recognizing that even if growth generates opportunities, it is still essential that the poor have access to basic social services, such as primary education, basic health care and family planning, by "systematic investment in the development of human resources."

Finally, vulnerable groups will still remain, the two-part strategy needs to be complemented with social safety nets, designed to relieve temporarily the symptoms of poverty, by providing "some form of income insurance to help poor people through short-term stress and calamities."

Thus, the two basic elements of the strategy--efficient, labor absorbing growth and the provision of social services--are aimed at moving people permanently out of poverty, while the complement--well-targeted transfers and social safety nets--aims at the provision of temporary relief.

The paper describes how the Bank intends to make the strategy an integral part of its lending operations. First of all, instead of "targeted operations," the Bank's efforts must be comprehensive. And second, rather than spelling out a single blueprint, the Bank prefers to outline a process to carry out country specific solutions.

With this purpose, the Bank intends to carry out periodical assessments of the appropriateness of public policies, focusing on: 1) the effectiveness of economic management in generating growth that makes productive use of labor; 2) the adequacy of government efforts to provide basic social and infrastructural services to the poor; and 3) the extent, reliability, and affordability of social safety nets.

These periodic assessments will provide the basis "to ensure that the volume and composition of Bank assistance supports and complements the efforts of individual countries to reduce poverty."

Consequently, recognizing the need for "country specificity," two general principles will be observed in Bank assistance strategies: 1) "the volume of lending should be linked to a country's effort to reduce poverty;" and 2) "the composition of lending should support efforts to reduce poverty."

Furthermore, all "loan documents on investment operations" will form part of what has been renamed as the "Program of Targeted Interventions," previously known as the "Core Poverty Program." For operational purposes, the inclusion of a project within the Program of Targeted Interventions will be based on the recognition that it meets at least one of the following two criteria: 1) "a specific mechanism for identifying and reaching the poor;" and 2) "where no such mechanism is used, the participation of the poor in the project significantly exceeds the countrywide incidence of poverty."

Finally, the report outlines ways to improve the information system for analyzing poverty, with or without large-scale household surveys and summarizes some of the main recommendations that will have to be carried out to implement the proposed approach.

V. TRADE

V. 1. THE EXTENSION OF FAST TRACK AUTHORIZATION (WDW/9/91 - 13 MARCH 1991)

On March 1, President Bush sent to Congress a formal request for renewal of the fast track authorization, on the basis of which the United States is carrying on several trade negotiations.

As indicated by the President, fast track authority is necessary because it provides two guarantees essential for the success of these negotiations. First, it allows for a vote on implementing legislation within a fixed period of time; and second, no amendments can be introduced to the proposed agreement.

The fundamental reason is that trade agreements are particularly vulnerable to what are known as "killer amendments." Because results in one area are linked to other areas, even a minor amendment can unravel the entire agreement by altering the balance of benefits contained in the package as a whole, rather than in each one of its parts. In other words, fast track procedures guarantee that the agreements submitted to Congressional approval are pondered globally, instead of from the narrower angle of the special interests affected.

By granting this authority to the President, the trade negotiators can reassure their counterparts that the agreement voted by the Congress is the one approved at the negotiating table. "Without this assurance," states the President's Report, "foreign governments are reluctant to negotiate with the United States and will not make the tough concessions necessary to reach agreements." In other words, "no negotiating partner will give its bottom line knowing that the bargain could be re-opened."

The need for fast track authority is also a consequence of the peculiar relationship that prevails in the United States between the legislative and the executive branches of government. The President's Report refers to this relationship as the "new partnership" that emerged in the aftermath of the record-high tariff rates that contributed to the Great Depression, approved in what is known as the Smoot-Hawley Tariff Act of 1930.

Recently, fast track procedures were used to negotiate what are characterized as "three remarkable trade agreements." First, the results of the Tokyo Round of GATT negotiations of 1979; second, the free-trade agreement with Israel of 1985; and third, the free trade agreement with Canada of 1988.

Under the Omnibus Trade and Competitiveness Act of 1988 (Section 1103, b, 2), the President was granted fast track authority to complete the Uruguay Round of trade negotiations by December 1990. The law also states that the presentation of a progress report to Congress reviewing the results achieved, as of 1 March 1991, allows the President to request the extension of fast track procedures for an additional two years. The House or the Senate have until 15 May 1991 to deny such a request, thereby terminating, on 31 May, the Presidential authority to negotiate trade agreements under fast track procedures. Otherwise, the extension of fast track authority will last, as originally prescribed in the Omnibus Trade Act, until June 1993.

In his message to Congress, the President enumerates the trade agreements for whose completion it is considered essential to have fast track authorization. First, the Uruguay Round negotiations with 107 nations, because they "offer rich opportunities to break down trade barriers and expand the scope of international trade rules." Second, the North American Free Trade Area (NAFTA), with Canada and Mexico, characterized as a "historic opportunity," because it will "create growth and better jobs in all three countries, and will make us more competitive in the global marketplace." Finally and most relevant for all of Latin America and the Caribbean, "to take steps in the next two years toward fulfillment of the trade objectives of the Enterprise for the Americas Initiative (EAI)," with the purpose of completing "a possible free-trade agreement or agreements with other Latin American countries." In this last case, the Report concludes that "fast track procedures for free trade agreements negotiated with Latin American countries will encourage reform and liberalization in Latin America and will further the objectives of the EAI."

Authorized observers had warned that if fast track authorization for the trade dimension of the Enterprise of the Americas was not requested, the proposal could well be considered a non-starter. The Report recognizes that "it is likely that few Latin American nations will be in a position to enter into FTA negotiations with the United States before June 1993." Even so, "the United States must continue to be able to respond to the increasing pace of economic liberalization in the region."

If the President obtains from Congress the extension of fast-track authorization, the credibility of the proposal to create a hemispheric free trade area, "from Alaska to Tierra del Fuego," will be enhanced. The responsibility would then be in the Latin American and Caribbean court, particularly concerning the most appropriate methods to respond to this negotiating offer. As the situation presently stands, the Report indicates that only "Chile could be a candidate for the negotiation of a free trade agreement within the period of fast track extension."

Finally, in response to those that tactically have come out against the extension of fast track authority (WDW/7/91), the Report states that "now it is not the time to dissolve...the special cooperation" between Congress and the Executive in trade negotiations, that has "endured for more than sixty years."

V. 2. THE U.S. TRADE POLICY AGENDA FOR 1991
(WDW/10/91 - 20 MARCH 1991)

As mandated in Section 1641 of the Omnibus Trade and Competitiveness Act of 1988, "the President shall submit to the Congress during each calendar year (but not later than March 1) a report on A) the operation of the trade agreements program ... and B) the national trade policy agenda for the year in which the report is submitted." Both appear in a single volume issued by the U.S. Trade Representative (USTR), on 28 February 1991.

The objectives of this year's agenda are the same three of last year, except for the addition of a fourth objective that constitutes a prerequisite for the attainment of the others.

The first three broad objectives are grouped under the following headings:

A) "to strengthen and expand the international trading system through the conclusion of an ambitious Uruguay Round agreement with 107 nations under the GATT."

B) "to complement Uruguay Round goals and agreements by undertaking regional and bilateral market-opening and market-expanding initiatives such as the historic North American Free Trade Agreement with Mexico and Canada, and the President's Enterprise for the Americas Initiative."

C) "to enforce and implement U.S. trade laws in ways that best advance the goals of open markets and expanded trade."

Finally, "in order to achieve these goals, however," it is necessary to "first accomplish a fourth and crucial objective:"

D) "the extension of fast-track negotiating authority from Congress for another two years" (WDW/9/91).

The completion of the Uruguay Round is considered "the best means of strengthening the multilateral trading system," through:

- lower tariff and non-tariff barriers worldwide and to eliminate these barriers completely in key sectors;
- international rules of fair play in the new areas of services and investment, and to protect intellectual property;
- the reform of agricultural trade by opening global markets and reining in costly trade distorting agricultural subsidies;
- the integration of developing countries into the global trading system; and
- strengthening international rules on dispute settlement, subsidies, antidumping and import safeguards, to expand access to foreign markets and ensure fair trade in the U.S. market.

The regional and bilateral initiatives complement the Uruguay Round and are classified under geographic and sectoral headings.

Mentioned in first place this year, instead of the Pacific Rim, are several initiatives in the Western Hemisphere, with the negotiation of a North American Free Trade Area (NAFTA) with Canada and Mexico (WDW/7-8/91) appearing at the top of the agenda, followed by the "advancing of the President's Enterprise for the Americas Initiative (EAI)."

NAFTA is expected to strengthen already existent economic interdependence, as well as "to increase regional political stability, and create new opportunities for U.S. exporters." It is also expected to send a wider message, giving "other countries greater incentives to seek open markets."

The EAI is characterized as "an historic initiative to join all nations of the Americas in a new, open economic relationship." As a first step in the direction of the "creation of a zone of free trade extending from Alaska to Tierra del Fuego," based on a prototype, the United States is "negotiating framework agreements on trade and investment," to achieve "improvements in the protection of intellectual property rights, more open investment regimes, reductions in export subsidy practices, and improvements in market access for goods and services."

Finally, also mentioned in the Western Hemisphere are the Caribbean Basin Initiative (CBI) and the Andean Trade Initiative.

The Pacific Rim is listed immediately afterwards, with Japan, Korea and the Association of Southeast Asian Nations (ASEAN) specifically mentioned.

In the case of Japan, the "top priority" is described as "expanding access to the world's second largest market economy," by means of the Uruguay Round, the Structural Impediments Initiative (SII), and by eliminating barriers in specific sectors. The objective with Korea is "to ensure that its growing market is accompanied by expanded access for imports." Finally, in the case of ASEAN, the signature of a memorandum of understanding in December 1990 is expected to facilitate the creation of mechanisms "for enhancing trade and investment relations."

Concerning Europe, with a view to 1992, the U.S. is "monitoring with special interest" the following areas: telecommunications, government procurement, financial services, and testing and certification. In the case of Eastern Europe, the purpose is defined as "to integrate the emerging market economies... into the open global trading system."

Sectoral priorities comprise steel and shipbuilding and existing trade laws will be used to complement the "multilateral and bilateral objectives of free markets and fair trade."

Briefly, the main highlight of this year's agenda is the recognition by the USTR that "in the past two years there has been a remarkable turnabout in economic policy orientation in the hemisphere." In response to this trend, the Western Hemisphere appears at the top of the regional trade policy priorities of the United States.

V. 3. FOREIGN TRADE BARRIERS TO U.S. EXPORTS (WDW/15/91 - 22 MAY 1991)

It used to be that the presentation, every year on March 30, of what is known as the "National Trade Estimate Report on Foreign Trade Barriers," by the Office of the U.S. Trade Representative (USTR), was anticipated with considerable expectation. According to section 1304 of the Omnibus Trade and Competitiveness Act of 1988, the countries that appeared listed in the Report had to be submitted to scrutiny under the much dreaded "super" and "special" 301 provisions of the 1988 Trade Act.

This expectation has decreased since the USTR's declaration of a "cease fire," on 27 April 1990, announcing that it was "not naming any new countries or practices as 'Super 301' priorities."

Still, this year's Report, as mandated, presents "an inventory of the most important foreign barriers to U.S. exports of goods and services and affecting U.S. investment and intellectual property rights." Trade barriers are defined broadly as "government laws, regulations, policies, or practices that either protect domestic producers from foreign competition or artificially stimulate exports of particular domestic products."

On the basis of this definition, the REPORT classifies "foreign trade barriers" in eight different categories: 1) import policies; 2) standards, testing, labeling, and certification; 3) government procurement; 4) export subsidies; 5) lack of intellectual property protection; 6) service barriers; 7) investment barriers; and 8) barriers that encompass more than one category or that affect a single sector.

The Report describes the barriers that U.S. exports confront in "the largest export markets for the United States," including 43 nations and two regional trading bodies--the European Community and the Gulf Cooperation Council. Several countries are not listed, because of the "relatively small size of their markets or the absence of major U.S. industry and agriculture trade complaints." This year as last year, only six Latin American countries are listed: Argentina, Brazil, Chile, Colombia, Mexico and Venezuela. Finally, the Report contains an appendix describing those "market access issues in the financial service sector that the U.S. private sector brought to the attention of USTR." Also, for the first time, another appendix "provides an overview of the efforts made to date in the Soviet Union and six Eastern European nations toward economic reform and market liberalization."

Measured by the length of the citations, Japan ranks first with 17 pages, followed by the European Community and Canada with fourteen and thirteen pages, respectively, while Korea and Mexico appear each with nine pages and Brazil with seven pages.

Listed alphabetically, the enumeration of the barriers is preceded by ranking each country and regional grouping according to its relative importance as an export market, the amount of the U.S. trade deficit or surplus, as well as by the amount of U.S. exports and imports and of U.S. foreign investment.

Not all the citations that appear are negative. For instance, Argentina is commended for the import liberalization measures approved as "part of a sweeping trade reform" that the government has been implementing since 1989. However, under "lack of intellectual property protection" are mentioned pharmaceutical products and computer programs. Also, under services barriers appears the lack of access of U.S. insurance providers to major segments of Argentina's insurance market, as well as the fees levied on private international air courier shipments.

Brazil is also commended for the approval of a new tariff schedule, while the Report criticizes the requirement of denying import licenses to 47 categories of equipment in computer hardware and related digital electronics equipment. Also mentioned are certain rules for government procurement, lack of patent protection for chemical compounds and foodstuffs, as well as for chemical/pharmaceutical substances. Services barriers are identified in insurance, data processing, telecommunications and motion pictures, while certain investment barriers in different sectors are characterized as "often restrictive and discriminatory."

Chile is one of the countries that exhibits the cleanest record, for following liberal trade and investment policies and for not subsidizing exports. Only certain deficiencies in the newest patent law, approved in May 1991, are considered objectionable.

The Colombian government is commended for its "apertura" program, because "it has progressed at a faster pace than anticipated." Even so, under criticism appear several export subsidies, government procurement practices and lack of intellectual property protection, as well as service and investment barriers.

A description of the current trade negotiations with Mexico precedes the positive identification of the removal of several government procurement practices, better coverage of intellectual property protection, as well as the liberalization of sectoral investment rules.

Finally, the Report describes approvingly Venezuela's reforms adopted as a result of the application of a World Bank-IMF program, as well as of its recent GATT membership.

Briefly, on balance, the scorecard of the Latin American trading partners mentioned in the Report recognizes and commends the unilateral liberalization that is taking place throughout the region.

V. 4. FAST TRACK APPROVED (WDW/16/91 - 29 MAY 1991)

In what is considered "a major victory," the Bush administration last week was granted authorization to continue negotiating the Uruguay Round, the North American Free Trade Area (NAFTA) and the trade dimension of the Enterprise for the Americas.

Both, the House of Representatives, last Thursday, by a margin of 39 votes --231 to 192-- as well as the Senate, last Friday, by a margin of 13 votes --59 to 36-- defeated a resolution that would have canceled, by June 1, the automatic renewal of fast-track authority. Thus came to a conclusion the intense lobbying effort carried out by supporters and opponents, that started even before March 1, when President Bush submitted the formal request for extension of the fast track negotiating authority (WDW/7,8,9/91).

Initially, the opposition appeared very solid and effective. It was constituted by organized labor, the industrialized mid section and southern textile states, some Florida and California vegetable and citrus growers, as well as by an impressive array of loudly assertive environmental groups.

The story of how this formidable coalition was defeated is yet to be written and it should be mandatory reading for all those interested in negotiating free trade agreements with the United States. However, several factors can be immediately identified to explain the outcome.

As Sidney Weintraub anticipated a decade ago, "the principal impediment to free trade in North America is political...this impediment cannot be overcome by intellectual argument."

First of all, among those confronting the opposition were several prominent leaders of both the Republican and the Democratic parties from the border states, including the Secretaries of State and Commerce and none other than the influential chairman of the Senate Finance Committee, Lloyd Bentsen (D-Tex). This revealed that party alignments were broken along unusual regional lines, with the southern border states strongly in favor, while the Northeast and the Midwest were divided.

Analysts have concluded that this also represents a recognition of the importance that the Hispanic vote will play in the coming elections of 1992, particularly the decisive electoral votes from the states of Texas and California.

This explains, as well, the split among the Democrats that in the end led to the approval of the extension of fast track authority. For instance, in the House of Representatives 91 Democrats joined 140 Republicans in favor, while only 21 Republicans joined 170 Democrats in the opposition. In all, in the House, the Democrats voted almost 2 to 1 against the authorization. In the Senate, the Democrats in favor were from southwestern and sea coast states, as well as others interested in the expansion of agricultural exports.

However, the most politically significant support among the Democrats came from several presidential hopefuls, particularly from the House Majority Leader Richard Gephardt (Mo.), as well as from Senators Albert Gore (Tenn.) and John D. Rockefeller (W. Va.). As admitted after the vote by the AFL-CIO legislative director, Robert McGlotten, "it is very difficult to win a vote against the House Leadership."

Also impressive was the fracture of some of the most effective lobbying groups, as the textile lobby split along textile-apparel lines, while agricultural interests split between exporters and producers for the local markets. Even the environmental groups, the most assertive newcomers to the debate over free trade, suffered a debilitating setback when, for instance, the National Wildlife Federation and the National Resources Defense Council came out in support of fast track.

There is also agreement that what turned the tide was the letter sent by President Bush to Senator Bentsen, copied to Representatives Gephardt and Rostenkowski (D-Ill.) and to every member of Congress, whereby the President personally committed himself "to close bipartisan cooperation in the negotiations and beyond." Also, President Bush offered that "efforts at economic integration will be complemented by expanded programs of cooperation on labor and the environment."

Last but not least, there was the very effective lobbying effort organized by the Mexican government in Washington D.C., directed by the "Office for Free Trade Agreement Negotiations," located not far from K Street, but physically separate from the Mexican Embassy. This office hired some of the most prominent public relations, lobbying and law firms in the city, in an impressive effort estimated to amount to $100 million in budgeted resources.

With the approval of fast track authorization the Uruguay Round and the NAFTA negotiations became real prospects, as well as the hemispheric-wide trade negotiations signalled by the Enterprise for the Americas Initiative. Therefore, Latin American and Caribbean governments interested in the creation of a hemispheric free trade area will have to monitor very closely the evolution of the NAFTA negotiations.

VI. INTER-AMERICAN ECONOMIC RELATIONS

VI. 1. THE OPPOSITION TO FREE TRADE WITH MEXICO (WDW/7/91 - 27 FEBRUARY 1991)

The debate in the United States about the negotiations of a North American Free Trade Area (NAFTA) is disproving the widely held assumption that trade relations among unequal partners fatally end-up in a pre-ordained, zero-sum, outcome to the advantage of the strongest, the largest or the more developed.

To the surprise of many believers in this "univocal determinism," formidable opposition has appeared against the request submitted by President Bush, on September 25, 1990, to obtain "fast track" authorization to negotiate NAFTA's creation with Mexico and Canada. Such authorization allows Congress only the possibility of approving or rejecting, without amendments, already negotiated agreements. Consequently, the decision has become entangled with the "fast track" authorization that the Executive has been using to negotiate the Uruguay Round and whose renewal has to be requested before March 1 of this year.

The contenders are pitted according to the traditional cleavage that separates free traders from protectionists, although certain newcomers to the ranks of the opposition are contributing to the debate's alacrity and fascination. Tactically, instead of focusing on the agreement itself, the opponents have targeted the request for renewal of the "fast track" authorization.

On the side of the protectionists can be found some expected heavy-weights. Mr. Thomas R. Donahue, secretary-treasurer of the powerful American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), in recently held Senate hearings, denounced that "the enactment of a free trade agreement with Mexico, as proposed by President Bush, would be an economic and social disaster for U.S. workers, and their communities." Furthermore, opposition to the agreement constitutes the top legislative priority of the AFL-CIO for 1991.

Also powerful and extremely effective are the textile and footwear manufacturers. Mr. Donald Hughes, President of the U.S. Textile Institute declared: "we are deeply concerned about the proposed free trade pact with Mexico, which could lead to import increases into this country that would significantly displace domestic sales and jobs."

Certain agricultural interests, particularly sugar cane and beet producers, as well as certain producers of fresh fruit and winter vegetable growers, have also voiced their opposition. The Florida Fruit and Vegetable Association sent a letter, co-signed by more than two dozen produce associations from Florida, California and New York, to Congressman Bud Cramer (D-Ala) stating that the proposed free trade agreement "will be devastating for many individual (U.S.) growers, and will adversely impact national and regional economics." Additionally, numerous small farmer organizations, through Mr. Brian Ahlberg, spokesman of the National Family Farm Coalition, declared that "small farmers are convinced that the free trade agreement will push down commodity prices and force farmers from their land." Mr. Ahlberg also predicted that "many large farm groups would eventually join in opposing the agreement."

Chemical and pharmaceutical manufacturers, computer software publishers and the recording industry are also asking for reforms in Mexico's legislation on intellectual property rights. The Pharmaceutical Manufacturers Association poses as a requirement for the free-trade talks that Mexico undertake patent law reforms, because a spokesman says that its "members are worried that Mexico is holding out on that reform as a bargaining chip in the talks."

Some of the newcomers to the opposition to the free trade agreement are contributing new dimensions to the debate and some of the most actively opposed are several quite effectively outspoken environmental groups. The argument is that differences in environmental standards generate unfair trade advantages, because investments will go where these standards are less demanding. As expressed by the National Wildlife Federation, the free-trade pact "will allow U.S. companies to evade U.S. pollution laws by manufacturing in Mexico, where regulations are much looser." Consequently, concluded Mr. Craig Merrilees from the National Toxics Campaign, "what we need is a trade agreement that will promote social and environmental justice on both sides of the border."

Regional differences have also appeared among legislators from different parts of the United States. For instance, from the border states, Senators L. Bentsen (D-Tex) and D. DeConcini (D-Arz) and J. McCain (R-Arz), have come out in favor of the agreement, while D. Riegle (D-Mich.) fears that differences in "wage rates will make manufacturing jobs slide away to Mexico."

Last but not least, opposition to the free trade agreement has come from six Mexican intellectuals, in the form of a letter to the Mexican Congress that has been circulating in Capitol Hill as well. Among the signers of this letter appear internationally-known personalities, such as novelist Carlos Fuentes and economist Jesus Siva-Herzog. As declared by one of the signers, UNAM Professor

Jorge Castaneda, "we suggest that negotiations for an agreement be taken more slowly and not be subject to political calendars."

If this formidable array of opponents looks impressive, the forces in favor of the agreement look, if not more, at least as impressive. To mention only a few major business groups, the Business Roundtable, the U.S. Chamber of Commerce and the National Association of Manufacturers have all come out in favor of the free trade agreement. Stay tuned, the results will be known soon.

VI. 2. THE SUPPORTERS OF FREE TRADE WITH MEXICO (WDW/8/91 - 6 MARCH 1991)

The opposition to the free trade agreement (FTA) with Mexico scored some early points even before President Bush made the formal request, on March 1, for extension of the fast-track negotiating authority (WDW/7/91). By contrast, the supporters, coming from behind, are asserting their viewpoints at a slower pace, although with equivalent intensity.

Still, the idea of free trade with Mexico has been around for some time. Among its earliest supporters is University of Texas Professor Sidney Weintraub, who wrote an article for the Congressional Research Service (CRS), in 1981, concluding that "for both Mexico and Canada, bilateral or trilateral free trade would permit a reduction in protectionism without opening their markets completely to all countries, and it would provide their industries with the opportunity to compete in the large North American market without fear of protection."

Also in favor of extending free trade throughout the Hemisphere, MIT Professor Rudiger Dornbusch, at a seminar sponsored in 1989 by the Inter-American Development Bank (IDB), asserted that "Latin America should seek bilateral trade opening in the way Mexico and the United States appear to be negotiating now. The economic benefits are clear and the political costs in terms of sovereignty lost are insignificant."

To confront the opposing, heterogenous coalition, those groups that have come out in favor include some very powerful business organizations, such as the Mexico-U.S. Business Committee, sponsored by the Council of the Americas, in association with the U.S. Chamber of Commerce and the American Chamber of Commerce of Mexico.

A comprehensive study requested by the Committee from the Policy Economics Group, of the accounting and economics consulting firm KPMG Peat Marwick, concludes that the FTA represents a "substantial 'win-win' proposition for both the United States and Mexico." In the terms of Salomon Brothers Managing Director, Thomas Enders, "this study conclusively shows that a Free Trade Agreement with Mexico will provide a boost to the U.S. economy. Investment is the key. If Mexico further liberalizes and codifies its rules through the FTA, a major boom will occur there. That will be good for us as well as for them."

The Business Roundtable, an association of Chief Executive Officers of 200 major corporations, "strongly believes that it is in the mutual interest of the United States and Mexico to negotiate a bilateral trade and investment agreement." The following five reasons are cited by the Roundtable for supporting the opening of negotiations under "fast-track" authority: 1) the bilateral trade and investment relationship is already very important for both countries; 2) closer economic ties will generate many important benefits for both countries; 3) the dramatic economic reforms undertaken by Mexico; 4) these reforms are evidence of "a fundamental rethinking of Mexican attitudes towards the United States;" and 5) piecemeal agreements have not gone far enough in the direction of expanding market opportunities on both sides of the common border.

Other powerful business groups that have come out in favor of free trade are the National Association of Manufacturers and the U.S. Council for International Business, as well as major agricultural organizations, such as the American Farm Bureau. All of these organizations, on February 6, 1991, the date of initiation of hearings in the Senate Finance Committee, displayed unusual strength by having 436 other associations sign a letter addressed to every member of the U.S. Congress in support of the extension of fast-track authority. This proved, according to the Business Roundtable, that "support among American business is broad, diverse and deep."

Offering a relatively more balanced perspective, the U.S. International Trade Commission (ITC) estimates that a free trade agreement with Mexico "will benefit the U.S. economy overall by expanding trade opportunities, lowering prices, increasing competition, and improving the ability of U.S. firms to exploit economies of scale." Furthermore, "since these gains are likely to outweigh the costs, the U.S. economy will probably gain on net," with horticulture as the only industry that, according to the ITC, would be the "most affected by an FTA with Mexico."

The ITC concludes that, given the relative size of the participating economies, "the benefits relative to the size of the U.S. economy are likely to be small in the near to medium term." After all, "Mexico is the United States' third largest trading partner, after Canada and Japan, but it accounted for just 6 percent of U.S. imports and 7 percent of U.S. exports in 1989." In these terms, what is at stake is much more important for Mexico than for the United States. Or, as asserted by the ITC, "the relative magnitude effects of an FTA would be significantly smaller for the United States than for Mexico."

Perhaps the "bottom line" in this fascinating debate can be found somewhere else. As indicated by Sidney Weintraub a decade ago, "the principal impediment to free trade in North America is political...this impediment cannot be overcome by intellectual argument." A U.S. Chamber of Commerce poll taken last week found almost half of the members of the U.S. House of Representatives still undecided about the renewal of fast-track authority. Also, last year, thirty seven senators led by E. Hollings (D-S.C.) and K. Conrad (D-N.D.) sponsored a resolution to deprive the President of fast-track authorization. We shall see.

VI. 3. PROGRESS IN THE ENTERPRISE FOR THE AMERICAS (WDW/17/91 - 26 JUNE 1991)

One year after the announcement by President Bush, on June 27, of the Enterprise for the Americas Initiative (EAI) several major events can be identified as evidence of the progress accomplished in the Initiative's different dimensions. First, preceded by unexpected controversy (WDW/7,8,9,16/91), the curtain was raised in the tripartite negotiations aimed at the creation of a North American Free trade Area (NAFTA). Second, on June 19, the youngest process of economic integration of the Hemisphere, known as MERCOSUR, signed a framework agreement on trade and investment with the United States. Third, with the exception of Guatemala, Nicaragua, Panama and the thirteen members of the Caribbean Community (CARICOM), all the other countries of the Hemisphere have signed bilateral framework agreements with the United States. Fourth, in the field of investment the United States and Japan have pledged $500 million each, as contributions to the Multilateral Investment Fund (MIF) created at the Inter-American Development Bank (IDB). Finally, Chile received the first investment policy loan from the IDB, to further the process of investment policy reforms.

Hosted by the Canadian Minister of International Trade, Michael Wilson and in the presence of the U.S.T.R. Carla Hills and of Jaime Serra Puche, Mexico's Secretary of Commerce and Industry, on June 12, the NAFTA negotiations began in a Toronto hotel. Two days later, the U.S.T.R. announced that 17 groups within six separate headings had been agreed to conduct the negotiations, under the supervision of the three chief negotiators, Emilio Blanco of Mexico, Julius Katz of the United States and John Weekes of Canada. The headings and the groups reveal the complexity of the agenda that is on the negotiating table. First, under market access: tariffs and non-tariff barriers; rules of origin; government procurement; agriculture; automobiles; and other industrial sectors. Second, under trade rules: safeguards, subsidies and trade remedies; as well as standards. Third, under services: principles; financial; insurance; land transportation; telecommunications; as well as other services. Fourth under investment: principles and restrictions. Finally, under separate headings, intellectual property and dispute settlement procedures.

This can still be considered a narrow agenda, since several touchy issues were left out of the negotiations, such as Mexican energy, Canadian culture and immigration to the United States.

The second major result accomplished during the EAI's first year took the form of the framework agreement signed by the four members of Mercosur --Argentine Foreign Minister Guido Di Tella; Brazilian Foreign Minister Francisco Rezek, Paraguayan Foreign Minister Alexis Frutos Vaesken, and Uruguayan Foreign Minister Hector Gros Espiel-- and the United States. This agreement is the first signed with a group of countries, putting into practice the original preference for negotiating with groups of countries engaged in processes of economic integration. As with the others already signed, the framework agreement with MERCOSUR includes a declaration of trade and investment principles, as well as a decision to hold regular consultations on the basis of a commonly agreed agenda.

Beyond the significant recognition to Latin American integration, made evident by the signature of the framework agreement with MERCOSUR, the participation of Brazil reveals also a movement away from an initially skeptical position. This was the interpretation given to the invitation by President Bush to President Collor of Brazil, who was visiting Washington officially, to participate in the ceremony of signature of the framework agreement with MERCOSUR, which at President Collor's suggestion will be known as "The Rose Garden Agreement."

This contrasts with the skeptical attitude expressed by the Deputy Foreign Minister of Brazil, Marcos de Azambuja, not even two weeks before the General Assembly of the Organization of American States (OAS), dismissing the Initiative as "an outline of a program" about which "not so much was done to give it bone or muscle." By contrast, President Collor at the signing ceremony in the Rose Garden hailed the agreement as "a historic milestone that foreshadows a brighter and better future for generations to come."

The third major accomplishment within the Initiative's trade pillar can be found in the other bilateral framework agreements signed with Colombia (July 1990); Ecuador (July 1990); Chile (October 1990); Honduras (November 1990); Costa Rica (November 1990); Venezuela (May 1991); El Salvador (May 1991); and Peru (May 1991). Also, another framework agreement with a group of countries is expected to be signed with the 13 members of the Caribbean Community (CARICOM) in July.

The other results registered during the first year of the Initiative can be found in the field of investment. These took the form of the decision announced by the United States and Japan of a contribution of $500 million each, to be disbursed in the next five years, to the Enterprise of the Americas Multilateral Investment Fund (MIF), created at the Inter-American Development Bank (IDB). Similar pledges to the MIF from Canada, some members of the European Community and even Korea and Taiwan were expected in the near future. Also, on June 19, the IDB approved the first investment policy loan granted to the Chilean government to promote private enterprise by means of further investment policy reforms.

VI. 4. NAFTA STALLS (WDW/35/91 - 27 NOVEMBER 1991)

The vulnerability of trade policy to internal politics recently became evident, when it was learned that the negotiations to create a North American Free Trade Area (NAFTA) stalled, because of the results of the November 5 elections in the heart of what is known as "the Rust Belt." The voters of Pennsylvania overwhelmingly elected a Democrat, Harris Woolford, who ran on a "populist agenda" stressing the economy's difficulties, as well as the need for a national health insurance program and portraying free trade with Mexico as negative for U.S. employment levels.

Thus, the negotiations with Mexico and Canada have become the first casualty of the campaign for next year's election, which has already begun, amidst a recession that after all appears to be not as "short and shallow" as originally expected (WDW/6/91).

The economy, in Wall Street terms, bounced "like a dead cat," after two quarters of negative real growth that started in the last quarter of 1990. In the second quarter of this year, the economy declined slightly, but the recovery in the third quarter was so weak, at an estimated 2.4 percent before inflation, that consumer confidence is still down, the stock market is jittery, while new jobless claims are surging.

As described by the President's Chief Economic Adviser, Michael Boskin, "we're certainly looking at more moderate growth than even the moderate growth we anticipated." Also, President Bush said, to explain why he saw no urgency to act, "there's some fairly good fundamentals getting out there, inflation is down. Interest rates are down. Personal debt is down. Inventories are down. Quality--competitiveness--quality is going in the right direction, up, and exports are up. So it's not like we're dealing with a totally bad economy."

No immediate risk of a "double dip"--of the economy falling again into recession--is anticipated by authorized observers, such as the National Association of Business Economists (NABE). It is only that, in the present quarter, growth before inflation is projected to amount to 2 percent, while for 1991 as a whole it will be almost 3 percent.

According to The Washington Post, quoting "a senior official," an internal review by the Administration of the November 5 election results, carried out the next day, "concluded that negotiations on the [free trade] agreement will not be completed until after next year's election." The Post added that "the fact that administration officials even considered delaying one of President Bush's major economic proposals--a pact knitting together the United States, Canada and Mexico in a North American free trade agreement--indicates the level of concern among Republican strategists over charges that the White House has neglected the economy while pursuing foreign policy interests."

Still, as The Post indicated, "many key Bush advisers, notably Baker and Commerce Secretary Robert A. Mosbacher, say they believe that a North-American free trade agreement would be a political as well as economic plus for the president, allowing him to cut into the Democratic hold on Mexican-American voters in such pivotal states as California, Illinois and Texas."

By contrast, U.S. Trade Representative Carla Hills declared. on November 14, that while the talks still could be completed by the fall, "I don't want to bet next year's salary on it."

On the same day, at a conference sponsored by the Center for Strategic and International Studies (CSIS), Representative Jim Kolbe (R-Arizona) stated that President Bush's primary concern in 1992 was winning the election and anything that could appear in the way of that objective would be placed in "the backburner." Additionally, Representative Kolbe said that even if the NAFTA negotiations concluded with the signature of an agreement on January 1st., the legislative approval of such an agreement demands at least 90 legislative days. This would bring the final approval to around July, which would already be the peak of the political campaign.

At the same conference, Senator Bob Graham (D-Florida) declared that, as a supporter of the extension of fast-track authority (WDW/9,16/91), he agreed that it was better to wait until after the presidential election of November 1992, to avoid the risk of making the NAFTA agreement an electoral issue.

In these terms, the next Camp David retreat between Presidents Salinas and Bush, on December 14, is seen as the opportunity to decide on the postponement of the negotiations. As The Journal of Commerce said, the Camp David retreat, at least, will "serve to settle a disagreement within the Bush Administration over whether the negotiations should be put on ice during the coming election year."

Meanwhile, according to a New York Times/CBS News poll, only one in four presently approves the way President Bush is handling the economy, "a level of discontent unmatched since the days of double-digit inflation under President Jimmy Carter." Also, President Bush's overall job approval rating is at 51 percent, a drop of 16 percentage points since mid-October, attributed to a month of bad economic news and to a certain disarray in the White House team. Last but not least, for the first time, "when offered a choice between re-electing President Bush or some unnamed Democrat, 39 percent of registered voters said they would probably vote for the President, while 37 percent said they would probably vote for the Democrat."

VII. THE HISPANICS

VII. 1. THE RISE OF THE HISPANICS (WDW/23/91 - 4 SEPTEMBER 1991)

Sometimes it is overlooked that, after the Native Americans, the Hispanics are among the oldest settlers of what now is U.S. territory, particularly along the states that border with Mexico. Perhaps this is because there are also some Hispanics who have arrived more recently, such as the Puerto Ricans after the Second World War; the Cubans during the last thirty years; and the Central Americans throughout the eighties.

According to the first figures released by the U.S. Bureau of the Census, during the eighties, the Hispanics were the fastest growing minority in the United States, from 6.4 percent of the total population in 1980 to 9 percent in 1990.

These figures hide even more spectacular increases, as in the State of California where the Hispanic population grew 70 percent, from 4.5 million in 1980 to 7.7 million in 1990. Thus, out of the 30 million inhabitants of the State of California, in 1990, almost 26 percent were Hispanics, up from 19.2 percent in 1980.

The composition of the Hispanic minority in the United States also changed drastically during the eighties. Mexicans still constitute two thirds of all Hispanics, the largest and one of the fastest growing segments, increasing by more than 50 percent during the eighties, to reach 13.5 million. Also, in 1990, 1 million Cubans and 2.7 million Puerto Ricans represented 5 percent and 10.5 percent of all Hispanics, respectively, with each also registering impressive increases of more than 30 percent.

However, the most spectacular increase during the eighties was experienced by a group classified in the census figures as "Other Hispanics," growing 66.7 percent, from 3.0 million in 1980 to 5.0 million in 1990. This last category comprises mostly Central Americans, although it includes South Americans as well.

Despite some impressive gains, the Hispanics still lag behind almost any average U.S. social indicator. For instance, during the eighties, only modest gains were registered among the Hispanics in educational attainment, with the rate of progress even slowing down when compared to the seventies.

In March 1983, almost 16 percent of Hispanics had completed less than five years of schooling, while in 1990 only 12 percent had done so. About 51 percent of all Hispanics completed four or more years of high school in 1990, compared with almost 78 percent of the total U.S. population. In 1983, 8 percent of Hispanics completed four or more years of college, compared to 9 percent in 1990, which contrasts with 21.3 percent of the total U.S. population.

In March 1990, the unemployment rate among Hispanics was 8.2 percent, higher than the 5.3 percent that prevailed among non-Hispanics. In 1989, the median money income of Hispanic households was $21,900, compared with $29,500 for non-Hispanic households. This was higher than the Hispanic household median income for 1982, which amounted to $19,503 in 1989 dollars. Still, the median income of Hispanic families in 1989 was about 67 percent of the median income of non-Hispanic families, amounting to $23,400 and $35,200, respectively.

In 1989, 23.4 percent of Hispanic families lived in poverty, more than double the proportion of non-Hispanic families, amounting to 9.2 percent, which meant that one in every six persons living in poverty in the United States was Hispanic.

The question raised by the preceding figures is if the coming elections of November 1992 will see an increase in the political influence of Hispanics that is congruent with their numbers.

VII. 2. <u>HISPANIC SHORTCOMINGS</u> (WDW/25/91 - 18 SEPTEMBER 1991)

The impressive increases in numbers (WDW/23/91), experienced by the Hispanics during the eighties, have not translated themselves into more influence. In a sense, these shortcomings, added to the social disadvantages described, define the agenda of the nineties for this rapidly increasing minority.

One of the main limitations to Hispanic political participation is that a large proportion are still either "illegal aliens," or have not yet become naturalized citizens. Estimates of these percentages vary widely. For instance, the National Association of Latino Elected Officials estimated that, in the 1988 presidential election, 4.9 million Hispanic residents were ineligible to vote, exceeding the 4.8 million who were registered to do so. Also, the same Association estimates that more than one third of all Hispanics living in the United States are "illegal aliens."

Affecting their political participation, as well, Hispanics constitute the youngest segment of the U.S. population, with about 30 percent under 15 years of age, compared to 21 percent of non-Hispanics. The same effect is caused by the Hispanics median age, at 26.0 years, about eight years lower than the median age of non-Hispanics, because among the youngest are found the lower percentages of political participation.

One of the indicators that illustrates better how the recent increase in the number of Hispanics has not immediately led to greater influence can be found in the 101st. Congress, where the Hispanic Caucus was constituted by nine voting members of the House of Representatives, three from Texas and three from California, as well as one each from Florida, New Mexico and New York.

In 1990, there were no Senators or Governors of Hispanic origin. In the past, only two U.S. Senators have ever been of Hispanic origin, both were from New Mexico--Dennis Chavez, from 1935 to 1962 and Joseph Montoya, from 1964 to 1977. Also, since 1900, there have been six state governors of Hispanic origin.

The record of Hispanic presence in the power structure of different cities is not better. For instance, during the eighties, Los Angeles-Anaheim-Riverside exhibited one of the fastest rates of growth in Hispanic population, a spectacular 73.4 percent, from 2.7 million in 1980 to 4.8 million in 1990. Even so, only in February, 1991, the Los Angeles County elected Gloria Molina to be the first Hispanic supervisor, and her election came only after a Federal Court ordered a redistricting that guaranteed the victory of a Hispanic candidate.

In Florida, Miami-Fort Lauderdale experienced also a spectacular increase of 70.4 percent in Hispanic population, from 621,309 in 1980 to 1.06 million in 1990. Still, it was only after an impressive recruiting effort, basically aimed at helping Cubans gain citizenship, that the first Cuban ever, Ileana Rohs-Lehtinen, was elected to the U.S. Congress.

By states, the picture is equally bleak. California with 26 percent of Hispanic population, has only three Hispanic Congressmen out of a total of forty five. Also, in the California state legislature only three out of forty senators and four out of eighty members of the state assembly are Hispanic. "This is shameful under-representation," according to Arturo Vargas from the Mexican-American Legal Defense and Educational Fund.

Finally, out of twenty seven seats in the House of Representatives from the state of Texas, with 24 percent of Hispanic population, only four are Hispanic. Also, with 19 percent of Hispanic population, no Hispanics occupy any of the five seats that Arizona has in the U.S. House of Representatives, while the state of New York, with 12 percent of Hispanic population, has only one Hispanic Congress person out of thirty four.

VII. 3. <u>HISPANIC HETEROGENEITY</u> (WDW/28/91 - 9 OCTOBER 1991)

It has been argued that one of the factors that acts against the attainment of national relevance by the Hispanics in the United States is their heterogeneity. First, the Hispanics are fragmented into at least four "communities," based on national origin--Mexicans, Puerto Ricans, Cubans and Central Americans--each with its own interests and identifications. Second, even within each community there exist profound differences on basic issues, such as bilingualism or immigration. Finally, these differences sometimes have been intensified by patterns of geographic settlement that have contributed to dispersion and fragmentation, such as the concentration of Mexicans in California and Texas, of Cubans in Florida and of Puerto Ricans in New York.

Other issues, given the decentralization that characterizes the federal system in the United States, are better dealt with at the state or even at the county level. Consequently, with the exception of immigration, the absence of the Hispanics is most conspicuous in some of the issues that form part of the national agenda, particularly those dealing with the external relations of the United States.

Be it as it may, the argument of Hispanic heterogeneity should not be carried too far. The three requirements that have been identified as necessary for a collective identity to exist, can be found among the Hispanics in the United States, despite their diverse national origins and decentralized patterns of geographic settlement. These three requirements are: first, there must be self-identification, as well as a feeling of belonging to a distinct culture, as there must be objective recognition by others of this distinctiveness. Finally, these three constitutive elements of a collective identity must be present together, simultaneously.

Perhaps one of the reasons for doubting the existence of a Hispanic identity in the United States was the absence of the element of objective recognition. However, the categorization adopted since the 1980 census, by grouping those that come from certain countries together, beyond racial lines, has furnished this missing element.

For the second time, in the census, the Hispanics were singled out as a separate category, encompassing different racial identities. According to the U.S. Bureau of the Census, "persons of Spanish/Hispanic origin are those who classify themselves in one of the specific Spanish origin categories listed in the question--for example, Mexican, Puerto Rican or Cuban--as well as those who indicate they are of other Spanish/Hispanic origin. Persons reporting 'Other Spanish/Hispanic' are those whose origins are from other Spanish-speaking countries of the Caribbean, Central or South America, or from Spain, or persons identifying themselves generally as Spanish, Spanish American, Hispano, Hispanic, Latino, etc. Spanish origin and race are distinct; thus, persons of Spanish origin may be of any race."

Until 1970, the census classified Hispanics along racial lines. In the seventies, representatives of several Mexican-American organizations initiated a dialogue with the Bureau of the Census that led to the inclusion in the 1980 census of a separate question to classify separately those who self-identified themselves as Hispanics. Consequently, until the 1980 census, the Hispanic minority was objectively recognized. Since then, a person becomes Hispanic, beyond racial identification or national origin, only after crossing the Rio Grande.

Be it as it may, it remains to be seen if as a result of their spectacular increase in numbers and their objective recognition, the Hispanics will be able, in the nineties, to transcend their parochial differences and transform themselves into a cohesive participant in the debate about the national agenda.

The politically significant numbers that will allow the Hispanics to become an active minority are already there. A comparison at different times of the political map of the United States reveals that major changes have happened, during the second half of this century, in the patterns of population settlement. In 1940, with 131.6 million inhabitants the most populous states were concentrated east of the Mississippi River, with New York, Pennsylvania and Illinois standing out. In 1990, with a population of almost 250 million, although large urban concentrations remain in the East, the most spectacular growth is found in the West Coast, as well as in Texas and Florida. These states will contribute a decisive number of electoral votes in the coming Presidential election and these are precisely the states that lately have experienced the most impressive growth in Hispanic population.

Additionally, beyond the parochial issues that are better dealt with at the county or the state level, to gain access to the normal trade-offs that take place to build the national agenda, or to gain national relevance, it is essential for a minority to become involved in foreign affairs. This is evident from the active participation of Jews in the defense of Israel, as well as that of Blacks in challenging apartheid in South Africa. External issues have the capacity of amalgamating even disparate national groups, to the point that it is around external issues that national coherence and cohesiveness are ultimately attained. Consequently, the passage into national relevance, beyond the parochialism of different national origins, will not happen unless the Hispanics are able to become active in foreign affairs.

VII. 4. THE HISPANIC VOTE (WDW/31/91 - 30 OCTOBER 1991)

The disclosure of the last U.S. Census figures has generated a fascinating political debate, as Republicans and Democrats compete to capitalize from the impressive changes in the number of Hispanics (WDW/23/91). In 1990, the population of the United States reached almost 250 million. Large urban concentrations remained in the East, while the most spectacular growth was found in the West Coast, as well as in Texas and Florida. These states will contribute a decisive number of electoral votes in the coming Presidential election and these are the states that lately have experienced the most impressive growth in Hispanic population. Also, as a result of these changes, more than a dozen minority seats will be added to the House of Representatives, while many more will become available in state legislatures. Thus, in the next elections, addressing the elements of a Hispanic agenda has become almost unavoidable.

This is already happening and the name of the game is "redistricting." An intense debate is taking place about redrawing the political map of the United States on the basis of the figures of the 1990 census. At this point, nobody can be sure who will benefit from the outcome. However, just the release of the first census figures has already increased tensions between Republicans and Democrats, incumbents and prospective challengers, as well as between minorities.

One key aspect of the political history of any minority in the United States, as the Irish in Massachusetts, the Italians and the Jews in New York, or the Poles in Illinois and the Blacks throughout the country since the sixties, can be found in the efforts made to move them into the mainstream by means of their registration to vote. In these terms, it can be safely assumed that, this time, some cases of redistricting will clearly benefit the Hispanics, as the fastest growing minority.

For instance, the size of congressional districts will change in at least twenty one states. This will give California, Florida and Texas about one fourth of all the seats in the House of Representatives. Only California will have seven additional seats in Congress and Hispanics have been reported to be "already laying claim to four of them."

What is not yet clear is which political party, if any, will come out a clear winner. It used to be that the Democratic Party was considered the most responsive to the interests of minorities. This is evident, for instance, from the fact that only one Republican appears among the nine voting members of the Congressional Hispanic Caucus--the recently elected representative from Florida.

Projecting from this situation, always a risky political exercise, could lead to the conclusion that the Democratic Party stands to benefit from the redistricting that is following the publication of the results of the 1990 census. However, this does not seem to be always the case. At least in one instance, in Chicago, the creation of a Congressional district dominated by Hispanics would take away enough votes as to endanger the powerful Chairman of the House Ways and Means Committee, Dan Rostenkowski (D-Ill).

Contradicting the projection that the Democrats will benefit is the new activism practiced by the Republican Party in favor of redistricting. An "unusual alliance" is emerging that manifests itself, for instance, in the provision by the Republican Party of software packages to prepare minority groups for the "redistricting battles" that are expected to intensify. Also, the Justice Department has openly opposed a new redistricting plan for the New York City Council, saying that it "consistently disfavored" Hispanic voters. And in Houston, the Justice Department is trying to block in court the next City Council elections, because "the city's electoral districts discriminate against Hispanic voters."

Meanwhile, the debate has also reached the inner circles of the Republican Party, concerning what The Wall Street Journal in an editorial criticized as "racial gerrymandering," or what another observer characterized as "the GOP's Hispanic contradiction."

The issue is if the redrawing of districts to concentrate minorities will end up dividing the country along racial and ethnic lines. The hope of those Republicans in favor is that the drawing of minority districts will hurt the Democrats, given some impressive gains scored lately by the Republican Party, particularly among Hispanics.

By contrast, some prominent Hispanic Republicans, such as Linda Chavez, a former Reagan appointee as Executive Director of the U.S. Civil Rights Commission, have come out openly against guaranteeing the existence of districts in which the Hispanics will constitute the majority. In this way, it is asserted, the Hispanics will never belong to the mainstream and they will remain "speaking their own language, living in protected enclaves, enjoying certain privileges based on disadvantage," instead of following the path of assimilation, as other successful minorities. Rather, the alternative is to bring the Hispanics into the mainstream, as it happened in the case of Governor Pete Wilson's victory in California, who won with 47% of the Hispanic vote.

In the end, as The Wall Street Journal editorialized, warning against the dangers of proportional representation, to force minorities into "electoral reservations" may have the opposite effect and "may wind up eroding minority influence in politics," because more whites will be elected without minority votes.

VII. 5. HISPANIC UNITY (WDW/33/91 - 13 NOVEMBER 1991)

Beyond definitions (WDW/28/91), certain recent organizational events indicate that there is movement in the direction of an increasingly coherent Hispanic participation in national issues.

First of all, according to Frank Cota-Robles Newton from the National Hispanic Agenda, concrete efforts at unification are taking place among several Hispanic organizations deliberately aimed at transcending the fragmentation caused by different national origins. The purpose is to bring together representative leaders from at least three of the most important segments of the Hispanic minority--Mexicans, Puerto Ricans and Cubans--into a single, umbrella organization.

These efforts towards unity have resulted in the creation of a new organization called the National Hispanic Leadership Agenda (NHLA), drawn out of the fusion of what were considered two of the most successful previous efforts aimed at unity: the National Hispanic Leadership Conference (NHLC) and the National Hispanic Agenda (NHA).

The first of these unifying organizations, the National Hispanic Leadership Conference, was created in 1976 with the purpose of formulating, before every U.S. presidential election, what was known as "a consensus document on Hispanic affairs." Four of these documents were produced before every presidential election held in the United States since 1976.

The other unifying organization, the National Hispanic Agenda, was promoted in 1987 by the then Mayor of San Antonio, Texas, Henry Cisneros, with the purpose of uniting Hispanics around issues that required national attention.

The new umbrella organization, the NHLA, aims at the creation of "a structural base to provide Hispanic Americans with a clear, central voice and thereby, a more powerful impact on issues of public policy."

The NHLA, has been described as the "most ambitious step to achieve national unity," undertaken by leaders "driven by the realization that Hispanics today are no longer a parochial 'special interest' group to be dismissed or ignored."

The "core concept" that inspired the creation of the NHLA is "inclusiveness," because "it seeks to transcend regional, political, national heritage and other special interests in order to address the needs of 'all' Hispanics."

The membership of the NHLA's Board of Directors includes an impressive list of twenty representatives of the most significant national Hispanic associations, as well as twenty five individuals representing elected officials, business leaders and other professionals.

The Board's functioning will be directed by six co-chairpersons, listed alphabetically: Henry Cisneros, former mayor of San Antonio; Fernando Ferrer, Borough President, The Bronx, New York; Antonia Hernandez, President, Mexican American Legal Defense and Education Fund, Los Angeles; Ileana Rohs-Lehtinen, member of Congress, Miami; Raul Yzaguirre, President, National Council of La Raza, Washington D.C.; finally, ex-officio, Solomon P. Ortiz, member of Congress, Texas.

The list of topics of major concern for the NHLA was drawn from the national conferences held, in 1988, by the NHLC and the NHA and includes the following issue-areas: 1) empowerment and political participation; 2) education; 3) civil rights and justice 4) economic opportunity and business development; 5) health services; 6) immigration and relations with Latin America; 7) military service and veterans affairs; and 8) cultural affairs.

The mention of immigration and the relations with Latin America, side by side with other major domestic concerns, reveals that there exists an interest in having something to say about foreign affairs.

Finally, the NHLA will be endowed with a permanent staff, to carry out the following tasks: "1. Present, shape and advocate public policies on Hispanic issues based upon the consensus of Hispanic leaders and organizations across the nation; 2. Promote public awareness of Hispanic concerns by implementing a proactive media strategy; 3. Provide a network that coordinates the initiatives of national Hispanic groups by facilitating cooperative efforts, better communication and mutual support; 4. Organize regional and national conferences that identify, prioritize and analyze issues of major concern to Hispanics; 5. Maintain close, consistent communication with the Hispanic community, government offices, corporations, political groups and other public institutions about key Hispanic issues; and 6. Help Hispanic leaders engage in dialogues with the top decision-makers in government, industry, and other fields."

In conclusion, coupled with the objective recognition of the Hispanics as a minority since the census of 1980, as a logical sequence, now come the attempts towards organizational unity, to support a more coherent participation in national affairs. Also, these efforts demonstrate that a search is under way for an organizational alternative that can provide the Hispanics in the United States with the capacity to transcend their present heterogeneity and provincialism. Thus, the nineties will tell if the Hispanics will be able to transcend their national origins, demonstrating that they can become a cohesive and relevant minority. After all, a person becomes a Hispanic only after crossing the Rio Grande.

VIII. MULTILATERAL FINANCIAL INSTITUTIONS

VIII. 1. THE WORLD BANK'S RESEARCH PROGRAM (WDW/12/91 - 3 APRIL 1991)

During fiscal year 1990, expenditures on research activities at the World Bank amounted to $23.7 million to finance 131 staff years, up from $20.2 million and 122 staff years in FY89. These expenditures represented, during FY90, 17.5 percent of all the analytical work undertaken by the Bank and accounted for 4.2 percent of the Bank's administrative budget, up from 14 percent and 3.5 percent in FY89, respectively. The other analytical activities performed by the Bank, not covered by the report because they are not considered research, are economic sector work which accounted for 54 percent and policy analysis 28 percent.

The FY90 report reminds specifically that "research at the Bank is different from research at universities and free-standing research institutes," because the "lending operations serve as a constant reminder to research staff that the real world is much more complex than the world of theory." However, there does not exist a "fixed relationship between research and operations, no single 'life cycle' for Bank's research."

The definition offered to describe the linkages between research and operations is narrower than the analytical economic work required to support operations. In these more narrow terms, Bank research includes only "analytical work designed to produce results with relatively wide applicability ... clearly motivated by policy concerns ... usually driven not by the immediate needs of a particular Bank lending operation or a particular country or sector report--but by longer term concerns." The main difference with academic research is that Bank research is "clearly directed toward a recognized policy issue in a way that will eventually yield better policy advice."

Two major sources of funding are available within the Bank to support research activities. First, the Research Support Budget (RSB), administered by a Research Committee, disbursed a record $6.4 million in FY90, compared with $3.6 million in FY89 and $4.0 million in FY88. Added to staff time for $3.8 million, in FY90 centrally funded projects amounted to $9.9 million, or almost 43 percent of research expenditures. Second, departmental sources, mainly from the Policy, Research and External Affairs (PRE) complex, amounting in FY90 to $17.2 million, or 57 percent of overall research expenditures.

At the top of the agenda of FY90, absorbing 18 percent of the Research Support Budget, still appears debt and adjustment, down substantially from 28 percent in FY89. Poverty alleviation follows, with 10.5 percent; human resources, 9.4 percent; the environment 8.4 percent; public sector management and privatization 7.9 percent each; and other sectors that absorb slightly more than 2 percent, such as financial intermediation, food security, women in development, as well as 1.2 percent for AIDS.

Looking ahead to the early 1990s, the "overarching goal of the Bank's research is to reduce poverty," with emphasis in four program areas: the environment, private sector development, human resources, and debt and adjustment. Under the Vice-Presidency for Policy, Research and External Affairs (PRE), the following sectors are identified: agriculture and rural development; industry and energy; infrastructure and urban development; population and human resources; environment; country economics; and international economics.

Among regional priorities, those identified as "important areas of new work" for Latin America are: first, the comparative analysis of the size of governments, reform of civil services, and fiscal decentralization; second, "to draw lessons from experience," are mentioned trade reforms, social investment funds and adjustment programs. Finally, environmental concerns such as the reduction of pollution through changes in relative prices and administrative controls.

These research activities are accompanied by an impressive effort at dissemination and outreach, mainly oriented to "enhance the Bank's image as an intellectual leader in the field of development research." First, two widely circulated journals: The World Bank Research Review, with 13,000 subscribers and The World Bank Research Observer, with 5,700 subscribers. Second, the Policy Research Bulletin, launched in January 1990 as a successor to the Research News, distributed to 21,000 researchers, policymakers, and business people. Third, the Annual World Bank Conference on Development Economics, held each year at the end of April, dedicated in FY90 to stabilization and growth, sustainable development and the environment, population growth and development, as well as to a reexamination of project evaluation and, in anticipation of this year's World Development Report, a roundtable on development economics. Fourth, a program of Visiting Research Fellows hosted 13 researchers during FY90 on issues such as the political economy of structural adjustment; nontariff barriers; poverty alleviation and income distribution in structural adjustment. Fifth, nine papers were published under the Policy and

Research Series on topics such as competition policies, industrial restructuring and agricultural diversification. More impressive still is the Working Paper Series, already approaching the number 600, with 230 papers published during FY90. Finally, Bank researchers published externally, during FY90, 44 articles in leading journals, 15 books, 51 technical papers and more than 300 working papers.

VIII. 2. THE IMF-WORLD BANK SPRING MEETINGS (WDW/13/91 - 8 MAY 1991)

This year's Bank-Fund spring meetings, held in Washington from 26 to 30 April, were dominated by two issues: the coordination of economic policies among the industrialized countries, as well as by the transition in Central and Eastern European countries (CEEC). Each one of these issues was addressed separately at the meetings of the Group of Seven and of the Group of Ten, respectively. The communiques of the Interim Committee and of the Development Committee essentially reflected the consensus or lack of it that resulted from the previous meetings. Finally, the communique issued by the G-24, as usual, commented on the items that appeared in the agendas of both the Interim and the Development Committees.

The fact that these two basic issues were dealt within the more restrained and homogeneous environment furnished by the G-Seven --the Finance Ministers and Central Bank Governors of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States-- and by the G-Ten --the members of the G-Seven plus Belgium, the Netherlands, Sweden and Switzerland-- did not necessarily mean that there prevailed more harmony and consensus.

The coordination of economic policies among the industrialized countries was tested by the request of the United States for a concerted lowering of interest rates. On the basis of the communique approved by the G-Seven, the hurried conclusion reached almost unanimously in the press was that, as depicted by the Wall Street Journal, the request had been "rebuffed."

However, in the terms of the cryptic language of the communique, in direct reference to Germany and Japan, the Ministers and Governors "noted the persistence of high real interest rates and the slowing of economic activity in those countries which until recently had been experiencing strong expansion." Further and more to the point, the key phrase reads: "against this background, Ministers and Governors emphasized the importance of monetary and fiscal policies which provide the basis for lower real interest rates and a sustained global economic recovery with price stability." This qualifier with respect to price stability was attributed to Germany, while the assertion characterizing the policy stance as a "medium-term strategy" was interpreted as an indicator of disagreement about the immediate future.

Be it as it may, the following Monday morning, April 30, the Federal Reserve Board (FED) of the United States announced that it had lowered the discount rate to 5.5 percent from 6 percent. A few hours later, the FED also pushed down the Federal funds rate to 5.75 percent from 6 percent. Finally, the next day, the largest commercial banks, led by Citibank, Morgan Guaranty and the First National Bank of Chicago, decided to cut the prime lending rate from 9 percent to 8.5 percent.

Since Germany and Japan did not follow, the United States appeared left alone by the other industrialized countries, in a manifestation of what Hobart Rowen in THE WASHINGTON POST characterized as "a much broader disagreement," that placed economic policy coordination "at a dead end."

The other issue that dominated the meetings was tackled at the G-Ten and had to do with the transformation from command into market-oriented economies in the Central and Eastern European countries (CEEC). The whole communique issued by the G-Ten was dedicated to this issue, amounting to a "manual of instructions," drawn from the report "Issues raised by the transition in Central and Eastern Europe," prepared by the Deputies of the G-Ten at their meeting of March 9.

By contrast, there was no agreement on the capital increase of the International Finance Corporation (IFC), because the United States demanded more involvement by the World Bank Group in lending to the private sector. Thus, the Development Committee agreed "that there should be continued negotiations."

Other issues were mentioned, but not acted upon, such as the prospects of a world capital shortage, with the G-Seven stressing "the importance of policies aimed at increasing global savings," while agreeing only "to monitor the situation closely."

On the assistance to the highly indebted developing countries, disagreement prevailed about debt relief. The recent official debt writeoffs for Poland and Egypt were sharply criticized by the Japanese delegation, while the United States opposed a new issue of special drawing rights which the Japanese delegation previously hinted it might support.

For the first time under the chairmanship of Chile's Minister of Finance, Alejandro Foxley, the Development Committee declared that to reduce the incidence of poverty constitutes the "highest priority for the world development community."

Probably as a departing tribute to President Barber Conable, who had raised the issue since 1989, the Development Committee pointedly emphasized "the need to reexamine the possible reallocation of public expenditures, including excessive military expenditures, to increase their impact on poverty reduction."

The Development Committee also "expressed its profound appreciation" to President Conable, "for the distinguished contribution he has made during his five-year term in office to the cause of development and the reduction of poverty in the developing world."

Finally, Mr. Peter Mountfield (United Kingdom) was appointed new Executive Secretary of the Development Committee, to replace Mr. Yves Fortin (Canada).

VIII. 3. THE WORLD BANK'S ANNUAL REPORT (WDW/26/91 - 25 SEPTEMBER 1991)

The 1991 Annual Report of the World Bank--for the fiscal year that goes from 1 July 1990 to 30 June 1991--in seven sections covers the following topics: 1) the Executive Board's activities; 2) a global perspective on the economic scene; 3) the Bank's operations; 4) the Bank's finances; 5) the activities of the World Bank Group, including those of the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for Settlement of Investment Disputes (ICSID); 6) regional perspectives, with a segment dedicated to Latin America and the Caribbean; and 7) a summary of the projects approved during FY 1991.

1990 is characterized as "a year of setbacks," for several reasons. First, the end of the longest postwar economic expansion in the industrialized countries; second, the persistence of the slowdown in the growth of the volume of world trade from 9 percent in 1988, to 7.5 percent in 1989 and to only 5 percent in 1990; third, the interruption of the easing in oil prices, as a result of the Gulf crisis; and fourth, the inconclusive state of the Uruguay Round.

However, this overview also includes certain "promising developments," such as the concerted response to the Gulf crisis; the "quickening and deepening of economic reform in all the countries of Eastern and Central Europe;" continued high growth in the developing countries of Asia; the pace of economic reform taking hold in sub-Saharan Africa; the completion of German unification; as well as "indications that, despite the Gulf crisis, the superpowers are likely to continue to reduce their military expenditures."

During FY 1991, lending commitments amounted to $21 billion, of which $16.4 billion from the Bank and $6.3 billion from the International Development Agency (IDA). Thus, the level of Bank commitments increased $1.2 billion, while IDA commitments increased by $800 million. In FY 1991, net disbursements from the Bank declined to $2.1 billion, down 63 percent from the $5.3 billion of FY 90. This drop in net disbursements was "caused, in part, by a decline during the year in Bank support for debt and debt-service reduction operations." IDA's net disbursements increased $646 million, to a total of $4.3 billion. Finally, overall net income increased from $1.05 billion to $1.2 billion.

Lending for human resource development--education combined with population, health and nutrition--stands out among the areas that received special attention, rising "dramatically" during FY 91, from $2.4 billion the previous year to $3.8 billion. Also, lending to Eastern and Central Europe "rose sharply in FY91, totalling $2.9 billion, compared with $1.8 billion a year earlier."

Adjustment lending totaled $5.9 billion, or 26 percent of total commitments, including $215 million for debt and debt-service reduction assistance to Uruguay and Venezuela. The other $5.7 billion in structural adjustment and sector-adjustment assistance represent an increase of $1.7 billion over the previous year, from 20 percent of total combined commitments in FY90 to 25 percent. "Most of the increase was the result of increased adjustment lending to countries in Eastern and Central Europe."

In the segment dedicated to Latin America and the Caribbean, the Report registers that "1990 continued to be depressed," with "a small decline in total output for the region as a whole, and per capita output fell for the third year in a row." Separately, the REPORT also describes the patterns of reforms, 1983-91; the lessons learned; debt and trade; and poverty alleviation.

In FY91, Bank's activities in Latin America and the Caribbean can be summarized as follows: 1) total new loan commitments decreased from $6 billion in FY90 to $5.2 billion in FY91, in forty-four operations, partly as a result of a decline in lending for debt reduction, from $1.3 billion to $215 million. 2) Disbursements of $4.3 billion were considerably lower than the $6.3 billion of last year, while repayments of $3.6 billion yielded net disbursements of $641 million. 3) Adjustment lending represented 30 percent of total lending, shifting away from broad lending to sector adjustment, particularly in support of public sector and financial sector reforms. 4) The volume of cofinancing dropped from $4.1 billion in FY90 to $2.1 billion in FY91. The Inter-American Development Bank (IDB) was the largest source of cofinancing with fourteen operations for a total of $1.4 billion, while Japan remained the largest source of official bilateral cofinancing, through five operations for a total of $360 million from the Eximbank and the Overseas Economic Cooperation Fund.

During FY91, the membership of the Bank rose to 155 nations, with requests from Albania and Switzerland submitted by the end of the year, which meant that the Bank was approaching universal membership. Also, Lewis Preston, former chairman of J.P. Morgan, was appointed by the Board of Directors to succeed President Barber Conable, who resigned at the end of his five year mandate. Among Mr. Conable's achievements, besides capital increases for the Bank and IDA, prominently figures the placement of the reduction of poverty at the top of the Bank's agenda; gearing the Bank towards a more pragmatic stance concerning the relationship between the market and the state, as revealed in the last World Development Report (WDW/19/1991); as well as increased attention to environmental issues and to the integration of women into the development process.

VIII. 4. THE IMF'S ANNUAL REPORT (WDW/27/91 - 2 OCTOBER 1991)

The performance of the International Monetary Fund (IMF), during the financial year that ends on April 30, is reviewed by the Executive Board in the Annual Report released every year before the annual meetings of the Board of Governors, to be held this year in Bangkok, Thailand, from October 12 to 17.

The first part of the Report contains an overview of the world economy, based on the World Economic Outlook (WEO), originally released by the staff in May 1991 (WDW/14/91). The second part includes a review of the policies and activities of the Fund, under the following headings: surveillance; the external debt situation and strategy; financial support of member countries; trade policy issues; and financial operations and policies.

Surveillance of the members' policies and performance takes the form of regular consultations in which the Fund emphasizes balance of payments viability and sustainable noninflationary growth. However, "the process has broadened over time to include structural and other issues relevant to an understanding of broad macroeconomic issues and the context in which economic policies are developed and carried out." In these terms, three elements have been emphasized during the regular consultations: the need for a medium-term focus in corrective policies; the importance of raising domestic public and private savings and stimulating more productive investment; and the role of structural policies in enhancing economic performance by expanding productive capacities.

Some of the most important conclusions drawn by the Board from the surveillance activities are: the recession that began in 1990 in the industrialized countries will be "relatively short shallow and short lived." However, "a quick recovery is not assured," due to the fragility of financial systems, uncertainty in the Middle East, and the difficulties in Eastern Europe. By contrast, prospects for the developing countries, are less favorable, with the external environment deteriorating, due to the weakening of growth in the industrialized countries and the drop in non-oil commodity prices.

The review of the debt strategy by the Board highlights the value of the case-by-case approach; the importance of sound economic policies; as well as the vital role of bilateral creditors. By the end of the fiscal year, the Fund supported debt- and debt-reduction in seven countries: Argentina, Costa Rica, Ecuador, Mexico, the Philippines, Uruguay and Venezuela. The last four of these countries completed debt-reduction operations. While five other countries--Chile, Jamaica, Morocco, Niger and Nigeria--either reduced the stock of debt or negotiated agreements with commercial banks.

The financial support committed by the Fund to member countries, during the year, amounted to SDR 5.6 billion, under twenty new arrangements, much less than the SDR 11 billion committed during the previous year. Five of these new arrangements were with countries of the Western Hemisphere: Costa Rica, El Salvador, Guyana, Honduras and Uruguay. Two thirds of the total commitments, or SDR 3.6 billion, were made toward the end of the year to five Eastern European countries--Bulgaria, Czechoslovakia, Hungary, Poland and Romania.

On trade policy, the REPORT considers "essential" the successful conclusion of the Uruguay Round and sees "encouraging progress toward greater trade liberalization in Eastern Europe and in other developing countries."

The Fund's financial operations included: 1) drawings (purchases) rose substantially, from SDR 4.4 billion, the previous year, to SDR 6.2 billion in 1990/91. 2) Repayments (repurchases) decreased by SDR 0.6 billion, to SDR 5.4 billion. 3) A net transfer of resources to the member countries of SDR 0.8 billion, by contrast with last year's net transfer of resources to the Fund of SDR 1.6 billion. 4) Overdue financial obligations (arrears) rose modestly, to SDR 3.4 billion, the smallest increase since 1984/85. 5) Finally, for the performance of its activities the Fund employed, as regular staff, 1,763 persons from 104 countries, with a total administrative budget that increased to $278 million, from $259.9 million of the previous financial year.

The two salient events in Fund's activities during the year were the swift response to the crisis in the Middle East, as well as the assistance granted to Eastern Europe. Still, overdue financial obligations "remained a serious problem in 1990/91," and although no members were declared ineligible during the year, eight countries remained in arrears of six months or more, including Peru and Panama in the Western Hemisphere.

Finally, four new members were admitted during the year--Bulgaria, Czechoslovakia, Mongolia and Namibia--bringing total membership to 155 countries. Also, Albania and Switzerland applied for new membership. Great expectation was generated by the application for membership by the Soviet Union, which will not only transform the Fund, for the first time, into a universal institution, but also will place it at the center of one of the most unprecedented processes of transition. Also intriguing will be how flexible the institution will be in dealing with all these extraordinary challenges posed by its universalization. Meanwhile, to guide it through this uncharted territory, the members of the Board have asked the Managing Director, Michel Camdessus to stay for five more years.