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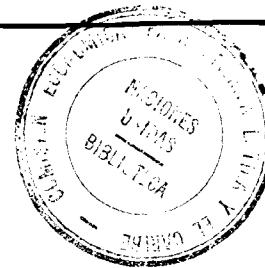
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INTERNATIONAL ECONOMIC HIGHLIGHTS 1992

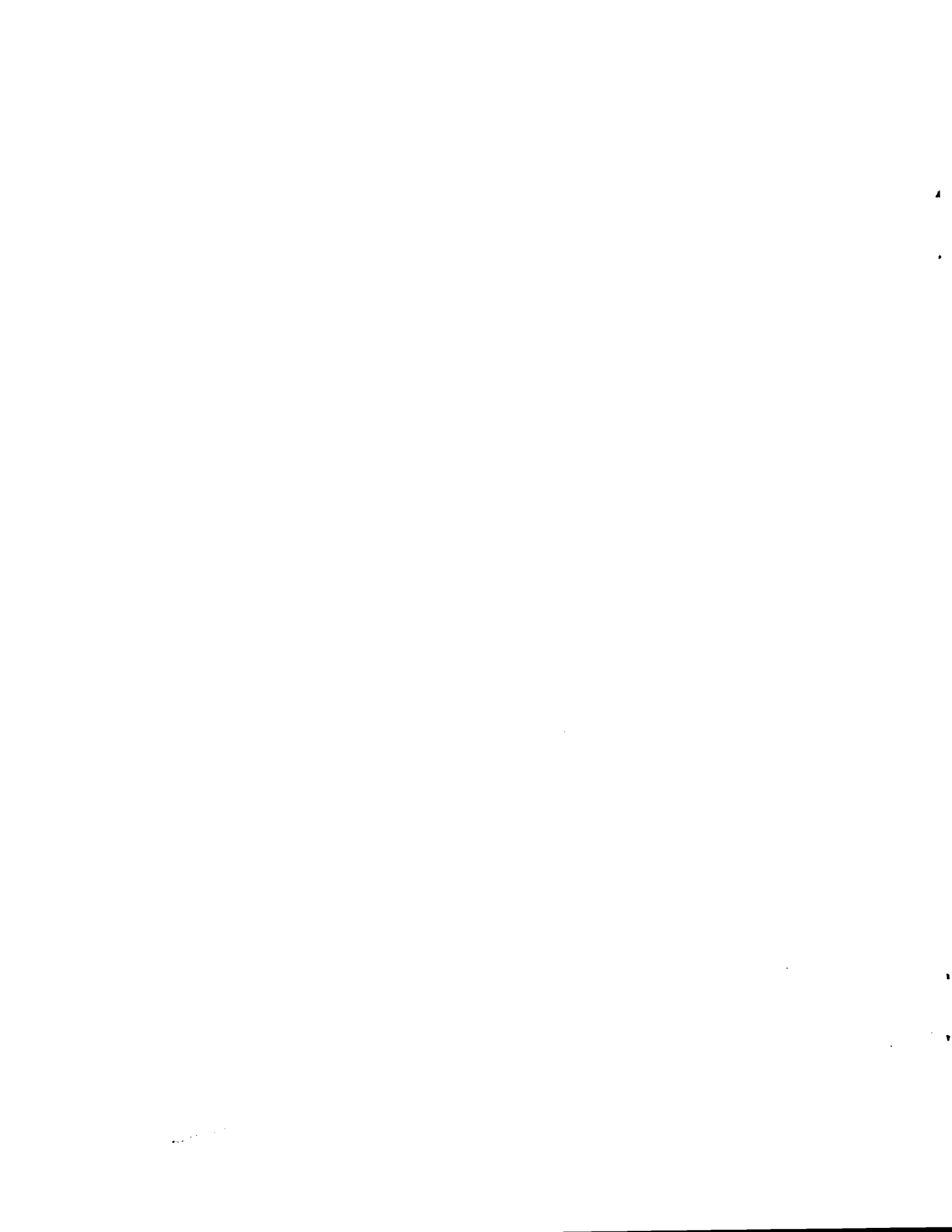


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PRESENTATION

This is the sixth 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.

1) The sluggish recovery experienced by the U.S. economy, since mid-1991 and into the first half of 1992, took its toll by contributing to the electoral defeat of the incumbent Republican Party, thus terminating its control of the Executive branch, which started with the inauguration of President Ronald Reagan in 1980. The Democrats won the election by promising a more active role by government in the reactivation of the economy.

2) 1992 will be recorded as the year when the Bretton Woods institutions accomplished their universalization, by reaching more than one hundred and seventy members, including the republics of the former Soviet Union, the former Yugoslav republics, Switzerland, Micronesia and even the tiny Republic of San Marino.

3) Finally, on international trade, by the end of the year, there was renewed hope that with the solution reached by the United States and the European Community on agricultural subsidies the Uruguay Round could be completed before the expiration in May 1993 of the U.S. President's fast track authority. Additionally, the conclusion of the negotiations on the North American Free Trade Agreement (NAFTA) and its signature on December 17, signaling the beginning of the process of ratification in each one of the member countries, constituted the major event of 1992 in the field on international trade.

¹ ECLAC Washington, International Economic Highlights, 1987 (LC/WAS/L.2) 17 August 1988; 1988 (LC/WAS/L.4) 17 March 1989; 1989 (LC/WAS/L.8) 15 March 1990; 1990 (LC/WAS/L.11) 22 March 1991; 1991 (LC/WAS/L.14) 11 March 1992.

Some of these issues were described in the weekly dispatches transmitted regularly throughout 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. 1992 LOOKS DIFFICULT (WDW/1/92 22 January 1992)

Three major factors are contributing to some of the difficulties that can be expected in 1992. First, the reactivation of the U.S. economy is taking longer than expected; second, there is still no light at the end of the Uruguay Round; and third, against this background, the political campaign in the United States could generate some undesired surprises.

The sluggishness of the U.S. recovery was not anticipated and is generating a degree of unprecedented pessimism, particularly among white collar sectors and the middle class. Among the most disheartened, the prediction that the slump would be "short and shallow" has become a concern about the risk of a "double dip," or the possibility that the economy could fall into a new downturn.

However, this gloomy scenario is not confirmed by the "consensus forecast" revealed by a survey conducted by The Wall Street Journal, among 42 economists, who anticipate "a bleak winter, followed by a mild economic recovery starting this spring or early summer."

According to these predictions, the U.S. gross domestic product will grow, in real terms, at a 1.1% annual rate during the first half of the year and at 3% during the second half of the year.

This forecast is in agreement with the one issued by the Organization of Economic Cooperation and Development (OECD) that its 24 members' growth would average 2.2% in 1992, on account of the sluggishness in the performance of the biggest and most industrialized members. The slowness of the U.S. recovery will be accompanied by growth of 1.4% in Germany, with the Bundesbank pushing interest rates upwards, to the dismay of the other members of the European Community. Even mighty Japan will see its rate of growth fall to 2.4% in 1992, from 4.5% in 1991. Consequently, as declared by the World Bank's Chief Economist Lawrence Summers, "the economic train doesn't have a strong locomotive."

For the developing countries, also according to Mr. Summers, the slow growth in the industrialized economies will translate itself into reduced demand for their exports, lower prices for

commodities and increased protectionist pressures.

In these terms, one of the few outstanding exceptions to these trends can be found in Latin America and the Caribbean. According to the Executive Secretary of ECLAC, Gert Rosenthal, quoted in The Washington Post, "the case can be made that Latin America can once again look forward to a rather long period of stable growth."

Although he also warned that "the region's recovery could easily stall if the U.S. and European economies continue their lackluster performance."

The second source of difficulties in 1992 stems from the impossibility of coming to an agreement within the Uruguay Round of trade negotiations. In these sluggish times, even an imperfect outcome is more attractive than a no-score outcome, that could signal the beginning of the breakdown of the multilateral trading system. At this point, it is not worthwhile to describe this bleak alternative, since the negotiations are still under way on the basis of the proposal presented by the Director General of GATT Arthur Dunkel, with the deadline for their conclusion agreed for mid-April.

Finally, the other source of difficulties in 1992 comes from the next elections in the United States, which could lead to the adoption of decisions that could be adequate politically but that might be disastrous for the economy, or that might be convenient in the short run but pernicious for the long term. Unfortunately, as Robert J. Samuelson said in The Washington Post, "the long term doesn't vote and doesn't have a lobby."

For instance, there is already an intense debate about the contents of the reactivation package, comprising increases in domestic spending and tax cuts, that President Bush will unveil on January 28 in his State of the Union message. The question is if the 1990 budget agreement will be respected, which can only be accomplished by shifting defense expenditures to finance the reactivation of the economy. As President Bush declared, "there are ways to live within the caps and then juggle around inside, but that would take new legislation."

Also, part of the political campaign is the issue of protectionism, which has already hurt the possibility that a North American Free Trade Agreement (NAFTA) will be presented to Congress for approval during the electoral campaign. Even more worrisome is the emergence of what Lawrence Summers characterized as an "inward trend in the American political climate," whereby "both the right edges and the left edges of the American political spectrum are flirting with dangerous isolationism."

Nonetheless, despite all these difficulties, there is still ground for a certain optimism. After all, by contrast with the "hard sciences," predictions are not among the strongest fields of economics.

Just as a reminder, The Wall Street Journal mentions that none of the forecasters, surveyed six months before, could predict "how far down the Federal Reserve would drive short-term interest rates in 1991." Also, "in mid-1990, 35 of the 40 economists surveyed predicted that the economy would continue expanding for at least another twelve months. Shortly thereafter, the recession began."

In other terms, as The Journal concluded, "it's frequently smart to bet against the consensus forecast."

I. 2. THE IMF'S FIRST WORLD ECONOMIC OUTLOOK (WEO)
(WDW/13/92 20 MAY 1992)

This year's advanced copy of the first WEO, as usual, was made available by the IMF staff to the press before the Fund-Bank Spring meetings (WDW/12/92). The full text will be published by the end of the month.

The advanced copy of the first WEO contains the following four chapters: 1) world economic prospects and policies; 2) the industrial countries; 3) the developing countries and, a sign of the times, 4) the former centrally planned economies. This time, the advanced copy does not contain the medium term projections, which will be included as an annex to the final version.

The slowdown in the world economy "has proven more persistent than projected" in the second WEO of October 1991. This led to a downward revision of the original projections for 1992 to a sluggish rate of 1.5 percent. A more rapid increase in world growth will have to wait until 1993, when it is projected that the world economy will grow at an annual rate of 3 percent.

However, amidst "the sluggishness of many cyclical indicators," the WEO identifies "several positive aspects in the current situation." First, many industrial countries exhibit "moderate and generally declining rates of inflation," which has permitted a "substantial reduction of short-term interest rates." Second, by contrast with the previous two recessions, of 1974-75 and 1980-82, there have not been "persistent supply-side disturbances from commodity markets." Third, some of the main causes of the weakness, such as the uncertainties emanating from the Middle East or the reduction in the high levels of indebtedness of households and corporations, are "no longer at work or are

diminishing." Finally, another positive signal comes from the contrastingly strong performance of the developing countries, explained by the adjustment efforts of past years, as well as by the positive effects of declining interest rates.

Among the industrial countries, in the United States and Canada the indicators still point to what is characterized as "a hesitant recovery," while in Europe growth has been restrained by the persistence of high interest rates, influenced by the relatively high inflationary pressures in Germany. Finally, in Japan the slowdown was basically influenced by a sharp deceleration in the growth of fixed investment, although output still remains slightly above the estimated level of potential GNP.

The weakness of activity was accompanied in almost all the industrial countries by a moderation of inflationary pressures, with the notable exception of Germany, where the 12-month inflation rate reached 4.75 percent in March 1992.

The developing countries "are expected to see a strengthening in growth." Based on the standard assumption of a continued and sustained implementation of policies of adjustment and reform, "real GDP growth is projected to average 6 percent a year in 1992-93, compared with 3 1/2 percent in 1990-91." Much of this is explained by the recovery projected for the Middle East and by the relief provided to the heavily indebted countries by the decline in short-term interest rates in the United States and Japan.

In the Western Hemisphere, in 1991, developing countries were able to grow at an average of 3 percent, despite weak growth in export markets. Although performance remained uneven, assuming that "economic reforms progress, financial policies are managed prudently, and world trade recovers," as well as a moderate increase in commodity prices and continued net inflows of external resources, "growth in the Western Hemisphere countries is expected to continue to strengthen in 1992-93 and inflation to decline further."

The quality of fiscal adjustment is singled out as a crucial element of positive performance in developing countries. Specifically, a warning is issued against the "danger that fiscal adjustment may result in reduced expenditures for health and education." In support, evidence is mentioned of "the importance of such expenditure in improving the quality of the labor force." For instance, a recent study has concluded that "a shift in public expenditure toward education by 1 percentage point of GDP can contribute as much as 1 percent annually to the average per capita growth rate of output in developing countries."

In the context of the qualitative aspects of fiscal adjustment mention is also made of military expenditures, which "at an average

of 4 1/2 percent of GDP...remain excessive in much of the developing world." Thus, support is granted to "reallocating saving from reduced military spending to infrastructure investment and the formation of human capital or by using such saving to reduce budget deficits."

Finally, the slowdown in world activity reflected "the dramatic contraction of output in the "former centrally planned economies," now estimated to have amounted to 20 percent in 1990 and 1991. While there are "signs that the contraction is beginning to bottom out in some of the Eastern European countries...in the republics of the former Soviet Union, where the reform process has barely started, further output losses may be in store." In conclusion, for the international community it is "a major challenge to respond to the needs of the republics for guidance and financial assistance as they struggle to overcome the legacies of the past."

Finally, an exhortation is made for the successful conclusion of the Uruguay Round.

I. 3. THE DECLINE OF PRIMARY COMMODITY PRICES
(WDW/18/91 24 JUNE 1992)

The Prebisch-Singer hypothesis, that the prices of primary commodities tend to decline secularly relative to the prices of manufactured products, has been confirmed in an IMF Working Paper (WP/91/47), by James M. Boughton, titled Commodity and Manufacture Prices in the Long Run.

This conclusion is derived from empirical tests extending earlier work and from data for the prices of primary commodities and manufactured goods since the middle of the nineteenth century. On the basis of this evidence, the paper shows that "there has been a stable negative trend in the relative price of commodities amounting to around 1/3 of one percent per annum, or about 40 percent over the past 120 years." Also, parallel to this deterministic secular trend, the relative price of commodities, exhibits "a strong and significant tendency... to revert to its trend-adjusted mean level."

However, since 1985, "the relative price of commodities has plummeted to an unprecedented level, and that decline cannot be explained either by the longer-run trend or by the other variables of the model." Furthermore, what is considered "more disturbing" is that there has also been "a secular tendency for commodity prices to become more volatile," which "first appeared around the time of the first World War, but it has become much more marked since the

early 1970s."

Thus, in 1990, the relative price of commodities was "at the lowest level recorded: some 60 percent below the level that would have prevailed in the absence of the negative trend and major disturbances in market conditions." This recent decline is not unprecedented. In this century, there have been three times in which the relative price of commodities has "fallen more than thirty percent below trend: in the aftermath of World War I, after which commodity prices rapidly recovered in the boom period of the 1920s; at the onset of the Great Depression, after which commodity prices remained relatively low until the end of the Second World War; and now."

Consequently, history suggests that for the relative price of commodities to recover, strong growth must prevail in the industrialized countries. However, the conclusion is drawn that the estimates presented in the paper, "must dampen even that degree of optimism, because the recent decline is not attributable to slow growth and is largely outside the realm of previous experience."

Several factors may help explain this unprecedented sharp decline. First, the depreciation of the U.S. dollar usually has a strong positive impact on commodity prices, making them cheaper in terms of the currencies of the other major industrialized countries and increasing their import demand. Even so, the U.S. dollar price of manufactures rose by some 35 percent from 1984 to 1990, which reveals the inflationary effect of dollar depreciation on the price of manufactures. The world prices of primary commodities, by contrast, "may have been less affected, perhaps because these commodities are more widely traded in more highly competitive markets." Another factor contributing to the decline in commodity prices could be the "increased competition among suppliers," as exporting countries sought increased revenues to service their debts. And third, several factors have affected the demand for specific commodities, such as health concerns against tropical oils and coffee; environmental concerns against phosphates; the weakening of international marketing arrangements, including coffee, cocoa and tin; bumper crops in cereals; as well as sharp increases in metals production to respond to earlier strong demand.

According to the World Bank, in 1990, non-fuel primary commodity prices "in aggregate nominal terms are estimated to have declined by 6.8%" Moreover, with the deflator used to derive the constant dollar values, known as the Manufacturing Unit Value (MUV), estimated to have increased by 6.3% in 1990, "the non-fuel commodity index measured in constant dollars fell 12.3%."

In 1991, non-fuel commodity prices in aggregate nominal terms are expected to remain unchanged and to increase by 3.3% in 1992. With the MUV expected to increase by 9% in 1991, "there is an

expected decline in non-fuel commodity prices in real terms of 8.3%," while the constant dollar index turns upwards in 1992--increasing by 2.1%.

For the medium term, the World Bank's Price Prospects for Major Primary Commodities 1990-2005 forecasts that "non-fuel primary commodity prices are expected to increase in both nominal and real terms over the 1993-2000 period." By contrast, over the 2000-2005 period, non-fuel commodity prices are expected to decline in real terms.

These projections are based on the following assumptions. On the negative side, the geographic distribution of demand will continue shifting. Growth in industrial country demand for primary commodities is "likely to decelerate," due to slower growth in population and advances in the technology of substitution, away from industrial raw materials and toward synthetics.

On the positive side, population pressures in Sub-Saharan Africa and South Asia will heighten the requirements for food and feedstuffs, although "the availability of finance will be a key constraint to making demand effective." Additionally, the robust growth of the East and South Asian economies, as well as the reforms in Eastern Europe and the former Soviet Union "will underpin strong demand for primary commodities."

I. 4. THE MUNICH SUMMIT
(WDW/21/92 15 JULY 1992)

It used to be that the term Munich conjured the nightmare of Neville Chamberlain appeasing Adolf Hitler, to the point that in almost every confrontation of the Cold War an overriding objective was "to avoid another Munich." More recently, Munich witnessed the terrorist attack against the Israeli athletes that came to participate in the Olympic Games of 1972.

This time, the celebration in Munich of the eighteenth annual summit of the Group of Seven industrialized nations--Canada, France, Germany, Italy, Japan, the United Kingdom and the United States--did not add to the bleak images invoked by this city. If anything, the Munich Summit will probably be remembered for what did not happen in it.

This impression of uselessness in large part results from the expectations, which are sometimes deliberately heightened in anticipation of such a gathering. After all, it is very hard to accept that nothing important will come out from an event that brings together the leaders of the most powerful industrialized

nations, accompanied by 1,800 officials, followed by 6,000 accredited journalists and protected by 9,000 police officers, at a cost to the host government of US\$21 million.

Beyond the numbers, this was also the first summit to be held after the demise of the Soviet Union. The last one, held in London, still saw the participation of President Gorbachev, in a special session that approved the special program of assistance to what was then still known as the Soviet Union.

In Munich it was the turn of Russia's President Yeltsin, who obtained approval for the disbursement of an IMF's first credit tranche of \$1 billion, as a first step towards the disbursement of a \$24 billion package previously approved in April and conditioned upon the fulfillment of profound macroeconomic reforms. For this reason, exhibiting a certain pragmatism, President Yeltsin declared that he was "very satisfied," since in his own terms "I didn't expect more and I didn't want less."

Still, the circumstances surrounding the seven leaders of the industrialized economies were not as propitious. First of all, there was what President Mitterand characterized as the "morose state of the world economy," whereby unemployment has reached 7.8 percent in the United States and it remains above 10 percent in Western Europe. Additionally, most of the summitteers, with the exception of Prime Minister Major of Great Britain, were confronting decisive elections in the near future, while experiencing approval ratings of less than thirty percent.

In such circumstances, the results contained in the political and economic declarations, summarized by President Bush in a concluding press conference, were immediately judged as a major disappointment.

President Bush listed what he characterized as "five key accomplishments." First, "a solid consensus on strengthening world growth;" second, support for market reforms in Poland; third, "strong support for President Yeltsin's reform efforts;" fourth, commitment to the future of safe nuclear power, "by agreeing on a coordinated cooperative effort with Eastern Europe and the former Soviet Union to improve the safety of Soviet-designed power reactors;" finally, several steps concerning Yugoslavia, "to contain the spread of ethnic violence."

The greatest disappointment was the absence of a breakthrough in the Uruguay Round of trade negotiations. In the terms of the final statement of the Munich Summit, "a successful Uruguay Round will be a significant contribution to the future of the world economy...we expect that an agreement can be reached before the end of 1992."

Moreover, revealing that there had been an attempt to focus on the details, the statement recognized that "progress has been made on the issue of internal support in a way which is consistent with the reform of the common agricultural policy, on dealing with the volume of subsidized exports and on avoiding future disputes. These topics require further work. In addition, parties still have concerns in the areas of market access and trade in cereal substitutes that they seek to address."

The search for the culprit did not make itself wait. The New York Times editorialized, "Blame isn't hard to place. France, alone, refuses to negotiate." The Wall Street Journal revealed that it all boiled down to a confrontation between "two men who make little secret of their dislike for one another," U.S. Secretary of State James Baker and France's Foreign Minister Roland Dumas.

However, Secretary Baker, who now appears in charge of the GATT negotiations, admitted that "we are much, much closer now to the prospect of a Uruguay Round agreement than we were as recently as five weeks ago."

The relatively meager outcome of the Munich summit led some to question the usefulness of such gatherings, while others expressed skepticism about the leadership role of the United States. Be it as it may, in an election year, a very political explanation was also offered by a "political adviser" to President Bush, who was anonymously quoted in The Washington Post. The White House, he said, had seen the summit "as an event to be gotten through with no disasters." The fear, among White House officials, was "that the Democrats would try to wrap it around our neck that the president was out hobnobbing at one of these hot-air events overseas with millions more unemployed."

I. 5. THE IMF'S SECOND WORLD ECONOMIC OUTLOOK (WEO)
(WDW/26/92 23 SEPTEMBER 1992)

The advanced copy containing the excerpts of the second WEO was made available by the IMF staff, on 16 September, just before the annual Bank-Fund Meetings, held this year in Washington D.C., on September 18-24. The full text will be released by the end of next month.

The advanced copy of the second WEO contains the following chapters: I) overview; II) world economic situation and short-term prospects; III) improving conditions for stronger growth; IV) the experience of successfully adjusting developing countries; and V) institutional change and economic transformation in former centrally planned economies. The final version will also include

three annexes: 1) asset price deflation, balance sheet adjustment, and financial fragility; 2) medium-term baseline projections and alternative scenarios; 3) the accuracy of World Economic Outlook projections for industrial and developing countries; as well as the full statistical appendix.

The world economy is experiencing "the third major slowdown since the 1970s." Following the stagnation of 1991, "during the next twelve months, world output is projected to expand by 1 percent in 1992 and by 3 percent in 1993." Admittedly, this last growth rate is close to the average of the past two decades. The difficulty, this time, is that both these growth rates are "somewhat less than experienced after the two previous--and more pronounced--recessions of 1974-75 and 1981-82." The recovery is thus "modest compared with previous cyclical upturns."

On the bright side, progress in the reduction of inflation is expected to continue, while world trade is predicted to grow from the modest 2 1/4 percent of 1991 to 6 3/4 percent in 1993. Even so, the bottom line is that "the expansion continues to be slow and uneven, and the balance of risks remains on the downside."

The estimates and projections for 1992 and 1993, as well as those for the medium-term in 1994-97 are based on the following assumptions: unchanged policies; constant real effective exchange rates at their average level of August 1-7, 1992; a world oil price averaging \$18.32 in 1992 and \$18.21 in 1993, remaining unchanged in real terms in the medium term; and interest rates, represented by the London interbank offered rate (LIBOR) on six months U.S. dollar deposits, of 3.9 percent in 1992, 4 1/4 percent in 1993, projected to gradually increase to 6 percent in 1997.

On the basis of these assumptions, in 1992, real GDP in the industrialized countries is expected to grow by 1 3/4 percent and by nearly 3 percent in 1993, which is about 1/2 of 1 percentage point lower than projected in the first WEO (WDW/13/92). On average for both 1992 and 1993, real GDP in the developing countries is expected to expand by 6 1/4 percent. In Eastern Europe as a whole, output is expected to decline further in 1992 but may expand moderately in 1993 for the first time since 1988. Finally, in the former Soviet Union overall output is projected to contract by 18 percent in 1992, warning that any projections about these countries is "subject to considerable uncertainty."

In the "developing countries of the Western Hemisphere," growth is expected to remain broadly stable at about 2 3/4 percent in 1992 and then increase to 4 percent in 1993.

Also, a review of "the experience of successfully adjusting developing countries," reveals that capital inflows to Latin

America increased from \$12 1/2 billion in 1989 to about \$25 1/2 billion in 1990 and to \$40 1/2 billion in 1991, with the bulk of these increases accounted by portfolio flows to Argentina, Mexico and Venezuela.

These capital flows into Latin America are explained because "the implementation of adjustment and structural policies has led to an increase in the credibility of the reform process and to renewed confidence in their economies." Even so, external factors are also considered important, since the implementation of reform policies preceded these inflows, as in the case of Chile and Mexico, and because "it was only when activity slowed and interest rates fell in the United States that there was an increase in capital inflows."

Non-fuel commodity prices are projected to increase in dollar terms by 1 1/2 percent in 1992 and by 2 3/4 percent in 1993, "reflecting the expected moderate recovery of world growth and the likely evolution of supply conditions." However, it appears likely that the decline in the prices of non-fuel commodities will continue as in 1991, when, influenced by the slowdown in the world economy and abundant supplies of certain agricultural commodities, they fell by 4 1/2 percent in dollar terms. In effect, the prices of all major commodity groups declined in 1991, especially those of metals and minerals (down 11 percent) and tropical beverages (down 6 3/4 percent). Still, adding a positive note, the report notes that "the weakness of prices for nonfuel commodities contributed to the recent decline in inflation worldwide."

Finally, after "an unusually strong expansion during 1987-89," the volume of world trade grew 4 percent in 1990 and only 2 1/4 percent in 1991. This relatively poor performance was due to "the cyclical slowdown in import demand in the industrial countries and the collapse of trade between the countries of Eastern Europe and the former Soviet Union." Contrastingly, in 1991, imports rose 12 1/2 percent in Asia and increased by a spectacular 17 percent in the Western Hemisphere. In the short-run, world trade is expected to grow 4 1/2 percent in 1992 and 6 3/4 percent in 1993.

II. THE U.S. ECONOMY

II. 1. THE REACTIVATION OF THE UNION (WDW/3/92 5 FEBRUARY 1992)

With this year's State of the Union message, President Bush has confirmed the postulate that the state of the economy is the most accurate predictor of electoral behavior. Consequently, in an election year, the President's message must be viewed as part of the political campaign that is already under way.

In the speech itself and in the budget proposal sent to Congress the next day, the President outlined a short-term policy to reactivate the economy, as well as a long-term plan, "to keep combustion going and to guarantee our place in the world economy."

For the short-term, besides an arms reduction proposal that immediately was judged as "too little" by the opposition, the package includes measures that the President can take on his own authority, such as an adjustment of income tax withholding tables, increasing the take-home pay of wage-earners by \$25 billion in the coming year; acceleration of already appropriated federal spending; measures to alleviate the "credit crunch" and to reduce the burden of regulation; and "continue to support monetary policy that keeps both interest rates and inflation down"-- at 3.1 percent in 1991, inflation was the second lowest since 1967 and interest rates are at the lowest levels in two decades.

Thus, the President avoided the alternative of new tax cuts to stimulate the economy in the short-term. Instead, with the cooperation of Congress, the President proposes the approval of an investment tax allowance and the simplification of the alternative minimum tax depreciation; to stimulate the real state market and home ownership; to cut the capital gains tax rate from 28 to 15 percent; and to extend federal unemployment benefits.

For the long-term, the President proposes record level expenditures in research and development, infrastructure, education, as well as to curtail crime and drug abuse; to expand trade and opening markets for exports, by means of the conclusion of the Uruguay Round, the North American Free Trade Area (NAFTA) and the Enterprise for the Americas; health reform; budget discipline; financial sector reform; and a national energy strategy.

The economic assumptions on which the budget proposal is based are preceded by a reminder by the Director of the Office of Management and Budget (OMB), Richard Darman, that "the domestic economy has not recovered in the manner that had been widely forecast." This leads Mr. Darman to restate that "macroeconomics is a highly fallible 'science'; macroeconomists are often closer to each other than to reality." Thus, the "economic assumptions and sensitivities," on which the budget proposal is based, do not constitute "a forecast."

The expectation that the economy will soon experience "a sustained turnaround" is based on several factors: 1) interest rates have fallen to their lowest levels and inflation has also eased; 2) economic policy is focused on reviving economic growth; 3) households and businesses have begun to reduce the debt burdens amassed in the last decade; and 4) an improving economy will help to restore consumer and business confidence.

For 1992, real GDP is projected to grow at a yearly rate of 2.2 percent, expected to increase to 3 percent per year starting in 1993 through 1997. The unemployment rate is projected to decrease to slightly less than 7 percent in 1992 and to drop to a yearly rate of 5.3 percent in 1996 and 1997. Finally the rate of inflation is expected to remain from 1992 to 1997 at around 3.1 percent.

However, what Leonard Silk in The New York Times called "the real shocker in the President's long-range plan" is the budget deficit, projected to grow to 365.2 billion in 1993 and to decrease to 203.3 in 1997. This is in spite of the fact that the budget proposal, as stated in the OMB's Director Introduction, "does not require increasing any discretionary spending caps. It does not require transfers from one category of expenditure to another. And... can meet the pay-as-you go requirements." In other words, the budget proposal stays within the limits of the October 1990 bipartisan budget agreement.

The continued increase in the deficit, as explained by OMB's Director Darman, is because "the practical facts of political reality amount to a formula for rising deficits and rising debt." Consequently, "even with adherence to the discipline of the Budget Enforcement Act, the near-term outlook for debt and deficits remains unattractive."

Three major reasons are mentioned to explain this: 1) the carryover effect of rising debt, with the associated interest burden, and the coverage of deposit insurance; 2) the recession and the continuing weakness of the economy; and 3) the continuing unrestrained growth of so-called "mandatory programs," with health expenditures becoming increasingly dominant since they will soon exceed 15 percent of GDP.

The overwhelming weight of these "mandatory" programs, those that "do not come up for annual review or decision either by the Congress or the President," is demonstrated because for 1993 they amount to \$766.8 billion and \$980.6 billion including interest, representing "over half of the federal budget (64.4 percent including interest)." Mr. Darman's conclusion follows that "the budget can be brought into balance in the intermediate term only by enacting both a growth agenda and restraint in the growth of 'mandatory' programs." Obviously, this is not the sort of medicine that lends itself to be administered easily in an election year.

II. 2. THE ECONOMIC STATE OF THE UNION
(WDW/4/92 12 FEBRUARY 1992)

This year's Economic Report of the President has been overshadowed by the State of the Union Message, which outlined a short-term policy and a long-term program to reactivate the economy (WDW/3/92). In the letter of transmission to Congress, the President addresses the issue of the sluggish behavior of the economy, describing 1991 as "a challenging year," because as a result of the recession "output was stagnant and unemployment rose." Also, despite the fact that "signs of a moderate expansion began to appear in the spring... by the late summer, however, the economy flattened out and was sluggish through the rest of the year." This is "a reminder that even a well-functioning economy faces the risk of temporary setbacks from external shocks or other disturbances," particularly because "structural imbalances develop that can interrupt economic growth." An "unusual confluence of such imbalances" is described to explain the slowdown presently experienced. Some of these imbalances are found in the financial and real state sectors, as well as in household, corporate, and governmental debt, in the reallocation of resources from defense and in "a relatively tight monetary policy coupled with problems in the availability of credit."

However, "the fundamental conditions to generate economic growth are falling into place," such as the lowest levels of interest rates in decades, the slowdown in inflation, lean inventories and the improvement in international competitiveness, as evidenced by record levels of exports.

Still, the economy "faces serious economic challenges: to speed, strengthen, and sustain economic recovery; and, simultaneously, to provide a firmer basis for long-term growth in productivity, income, and employment opportunities." To address these issues the President refers to the State of the Union Message, as well as to the 1993 budget.

The annual report of the Council of Economic Advisers, that follows the President's message of transmission to Congress, is divided in the following chapters: 1) the American economy: responding to challenges; 2) recent developments and the economic outlook; 3) the labor market; 4) government and the level and distribution of income; 5) competitive forces and regulation; 6) open international markets and prosperity; and 7) economic statistics: measuring economic performance.

The first chapter links the President's message with the rest of the Report, particularly with the next chapter, which reviews recent developments and the economic outlook. The projection is "that the economy is likely to remain sluggish in the early part of 1992 but that a renewed pickup is likely to begin in the middle of the year... the economy is then expected to return to solid real GDP growth of about 3 percent a year through the mid-1990s, and the unemployment rate is expected to decline from around 7 percent to less than 5 1/2 percent."

The centerpiece of the chapter on the labor market deals with the slackness in the rate of productivity growth, understood as GDP per hour, which explains the slowdown in the growth of wages. Three broad explanations are presented to account for this result: 1) Capital accumulation, in the private sector capital per worker grew at a rate of 2.4 percent per year between 1959-73, while productivity grew at a rate of 2.8 percent; during 1973-89, by contrast, these annual rates of growth were 0.8 percent and 0.9 percent, respectively. 2) Technological change, which is difficult to measure except by reference to productivity. And 3) the quality of the labor force, including higher levels of schooling, higher quality and relevance of instruction. The conclusion derived is that "a major suspect in the slowdown in U.S. productivity growth is thus to be found not in the labor markets but in the capital markets."

The chapter on the role of government in the level and distribution of income, focuses on the effects of taxes and transfers and disclaims that the rich got richer while the poor got poorer. Between 1967 and 1990, money income grew faster in the higher quintile, at a rate of 35 percent, by contrast to 25 percent in the lowest quintile and 17 percent in the middle quintile. However, since this does not include noncash transfers, between 1967-90 for the households in the lowest quintile, money income plus the estimated value of noncash transfers, adjusted for inflation, increased by 48 percent.

The chapter on competitive forces and regulation reviews three cases of beneficial deregulation, in the natural gas industry, the generation of electric power and cable television. One of the principles suggested is that "any proposal to regulate the market should be tempered by an understanding that regulation may be as

imperfect as the market it is trying to improve."

The chapter on international markets and prosperity focuses on the Uruguay Round, the negotiations for a North American Free Trade Area (NAFTA), Europe 92 and what is called "the revolution toward more market-oriented economies." This chapter summarizes known positions already adopted and presented in these ongoing negotiations.

Finally, the last chapter describes the sources of some commonly used statistics, warning that "decisionmakers must be careful, first, to choose the most appropriate data to analyze issues and, second, to recognize the shortcomings of the measures they use."

II. 3. NO NEW RIVALS
(WDW/9/92 18 MARCH 1992)

"An official" has provided to The New York Times a copy of a 46-page document, known in the Pentagon as the "Defense Planning Guidance," prepared every two years to serve as the basis for the design of strategy and budgets in forthcoming fiscal years, in this case for 1994-1999. It is the first of such documents "produced after the end of the cold war" and although still in "its final drafting stage," it was made available to The Times because the provider "believes this post-cold-war strategy debate should be carried out in the public domain." So much for the justification of this ubiquitous Washingtonian institution, better known as "the leak."

The document "addresses the fundamentally new situation which has been created by the collapse of the Soviet Union, the disintegration of the internal as well as the external empire, and the discrediting of Communism as an ideology with global pretensions and influence." Other events that have shaped this new environment are the victory over Iraq, characterized as "the first post-cold-war conflict and a defining event in U.S. global leadership;" as well as another "less visible" victory, defined as "the integration of Germany and Japan into a U.S.-led system of collective security and the creation of a democratic 'zone of peace'."

Two basic assumptions underlie the proposed strategy. First, "it is improbable that a global conventional challenge to U.S. and Western security will re-emerge from the Eurasian heartland for many years to come." Consequently, "with the demise of a global military threat to U.S. interests, regional military threats, including possible conflicts arising from the territory of the

former Soviet Union, will be of primary concern for the U.S. in the future." In these cases, "the U.S. will be concerned with preventing the domination of key regions by a hostile power."

The proposed strategy is aimed at two objectives. First, "to prevent the reemergence of a new rival, either on the territory of the former Soviet Union or elsewhere, that poses a threat on the order of that posed formerly by the Soviet Union."

Three additional aspects are necessary to pursue this objective: 1) "the U.S. must show the leadership necessary to establish and protect a new order that holds the promise of convincing potential competitors that they need not aspire to a greater role or pursue a more aggressive posture to protect their legitimate interests;" 2) to "account sufficiently for the interests of the advanced industrial nations to discourage them from challenging [U.S.] leadership or seeking to overturn the established political and economic order;" 3) to "maintain the mechanisms for deterring potential competitors from even aspiring to a larger regional or global role."

The second objective is to "address sources of regional conflict and instability...in regions of security importance for the United States because of their proximity (such as Latin America), or where we have treaty obligations or security commitments."

Several examples of the different "types of U.S. interests" are presented, such as "access to vital raw materials, primarily Persian Gulf oil; proliferation of weapons of mass destruction and ballistic missiles, threats to U.S. citizens from terrorism or regional local conflict, and threats to U.S. society from narcotics trafficking."

The document describes by region the way in which the strategy of "precluding the emergence of any potential future global competitor" will be applied.

In the former Soviet Union, "the best means of assuring that no hostile power is able to consolidate control over the resources within the former Soviet Union is to support its successor states (especially Russia and Ukraine) in their efforts to become peaceful democracies with market-based economies." Furthermore, "key U.S. concerns will be the ability of Russia and the other republics to demilitarize their societies, convert their military industries to civilian production, eliminate or, in the case of Russia, radically reduce their nuclear weapons inventory, maintain firm command and control over nuclear weapons, and prevent leakage of advanced military technology and expertise to other countries."

In Western Europe, "to prevent the emergence of European-only security arrangements which would undermine NATO, particularly the alliance's integrated command structure."

To grant to the east-central European states, "security commitments analogous to those...extended to Persian Gulf states."

In the Pacific rim, "acting as a balancing force and prevent emergence of a vacuum or a regional hegemon."

In the Middle East, "to remain the predominant outside power in the region and preserve U.S. and Western access to the region's oil," as well as "to prevent a hegemon or alignment of powers from dominating the region."

In the Indian subcontinent, to "discourage Indian hegemonic aspirations over the other states in South Asia and on the Indian Ocean."

Finally, in Latin America "Cuba's tenuous internal situation is likely to generate new challenges."

The reactions to the publication of this document did not make themselves wait, they will be described in next week's Dispatch.

II. 4. THE DEBATE ON THE LONE SUPERPOWER PLAN (WDW/10/92 25 March 1992)

The reactions generated to the publication, in the Sunday New York Times, 8 March 1992, of a draft of the Pentagon's "Defense Planning Guidance" for 1994-1999 (WDW/9/92) revealed the existence of an intense debate, within and with the Administration, about the role of the United States in the post-Cold War world. In an election year, a leak of such magnitude and the reactions have to be seen primarily as part and parcel of the political campaign.

First of all, among some of the presidential hopefuls there was a remarkable coincidence between conservatives and liberals in criticizing the document. On one side, Mr. Patrick J. Buchanan told reporters, "this is a formula for endless American intervention in quarrels and war when no vital interest of the United States is remotely engaged...It's virtually a blank check given to all of America's friends and allies that we'll go to war to defend their interests." Governor Bill Clinton's team, through his deputy campaign manager, dismissed the document as "one more attempt" by defense officials "to find an excuse for big budgets instead of downsizing."

In Congress, Senator Robert C. Byrd (D-W.Va.) called the document "myopic, shallow and disappointing." Senator Joseph Biden (D-Del.) said he agreed with some of the objectives, such as the non-proliferation of nuclear weapons, but he also said "the Pentagon vision reverts to an old notion of the United States as the world's policeman--a notion that, not incidentally, will preserve a large defense budget." More forcefully, Senator Alan Cranston (D-Calif.), in a speech in the Senate floor, accused the Defense Department of wanting to make the United States "the one, the only main honcho on the world block, the global Big Enchilada."

Some of these same arguments were used in an editorial in The New York Times, saying that "the go-it alone proposition is silly, the consequence of straining to justify extravagant military spending." Moreover, the document's propositions are described as "driven by the need to justify bloated budgets. But it's foolish, if only for financial reasons, to crow about America as solo superpower."

Even the Secretary General of the United Nations joined the critics, in an interview with Stephen Rosenfeld in The Washington Post, he said "if the Pentagon's recently revealed thoughts about American global hegemony prevail in policy," for Mr. Boutros-Ghali, this would mean "the end of the U.N."

Finally, an "Administration official, familiar with the reaction of senior officials at the White House and State Department, characterized the document as a 'dumb report'."

So much for the critics. President Bush, admitting that he had not read the document, urged the press not to "put too much emphasis on leaked reports." Even so, the President was seen as "broadly supportive of the thrust of the Pentagon document," when he said, "I think the United States has a burden to bear. But we have worked effectively through multilateral organizations. The clearest example of this is what happened in the gulf war...But we are leaders and we must continue to lead, we must continue to stay engaged. So it isn't a clear-cut choice of either-or."

Enthusiastically in favor was the columnist Charles Krauthammer, the best known theoretician of the unipolar moment, who saw it as "an impressive blueprint for the new world order." Enumerating the document's critics, he concluded, "with enemies like these, one can assume that the Pentagon Paper is doing something right." Krauthammer describes the alternative as "Japanese carriers patrolling the Strait of Malacca and a nuclear Germany dominating Europe" and asks, using a metaphor coined during the Cold War, "do we really want to devote the next 40 years to competition with two, three, many" nuclear superpowers? Finally, Krauthammer dismisses "collective internationalism" as a "dangerous nonsense," which is "not Utopian. It is merely stupid."

Supportive, as well, was The Wall Street Journal, in an editorial asking "what can you conclude about a document criticized by the likes of both Republican Pat Buchanan and Delaware Democrat Joe Biden? It must say something sensible." Also, in The Washington Post, retired army Colonel and columnist Harry Summers quoted a comment by Rome's Il Manifesto, saying that "entrusting its dream to the armed legions, brings to our minds...the fall of the Roman Empire." Colonel Summers concluded, "that fall took some 296 years, 80 years longer than the United States has been in existence. If the Pax Americana could last only a portion of that time, the world would be well served indeed."

Finally, by the end of the week, Secretary of Defense Dick Cheney counterattacked, in an op-ed in The New York Times titled "Active Leadership? You Better Believe It." Secretary Cheney sees in the criticism to the Pentagon plan, "the tired old cry that America's world presence is somehow immoral and dangerous." He depicts the alternatives as "either sustain the forces we require and remain in a position to help shape things for the better, or we can throw our advantage away." Although, he warns, "that would only hasten the day when we face greater threats at higher costs and further risk to American lives," just when the United States "can remain a leader for much less than it cost us in the past."

Secretary Cheney closes saying "those who advocate abandoning our leadership responsibilities are uncomfortable with our strength. But millions around the world have found it cause for celebration and pride."

II. 5. THE DEBATE ON U.S. ECONOMIC POLICY (WDW/20/92 8 JULY 1992)

In an election year, particularly in the middle of a recession, any attempt to describe the different positions that exist about economic policy is bound to be politically tainted, beyond what is usually accepted as normal. Even so, the timing to review the debate may be just right, since the proposals offered by the different contenders have not yet become part of their campaign platforms. Consequently, the search for the most politically attractive economic message is still under way.

This is the context in which recently took place the presentation by the former head of the Council of Economic Advisers during the Carter Administration, Charles L. Schultze, of a book titled Memos to the President, which contains 29 memos addressed to the future president. The memos are written in language accessible to the non-economist and propose what is described by the author as "a mainstream and centrist point of view." Furthermore, to

illustrate the centrist nature of the proposals, the author was accompanied at the press conference where the book was presented by Professor James Tobin from Yale University and by Herbert Stein of the American Enterprise Institute.

In what is characterized as the mainstream, Schultze includes the moderately conservatives (such as Herbert Stein and Alan Greenspan) and the moderately liberals (such as Walter Heller and James Tobin), arguing that their differences concerning "the relative dangers of inflation and unemployment" have narrowed. The difference, in Schulze's terms, was that "moderate conservatives were usually rather slow to recommend expansionary policies to fight a recession but quick to urge restrictive policies to prevent inflation." By contrast, the moderately liberals were more expansionist, more willing to rely on "incomes policies" to stimulate the economy "without increasing inflation." According to Herbert Stein, there has been a shift in emphasis from "managing demand to keep the economy at full employment," to issues such as "how to increase long-term growth," as well as "the importance of controlling the money supply to keep a lid on inflation."

Today, amidst high interest rates and structural budget deficits, these differences have narrowed. There is consensus at the center of the spectrum about the reliance on monetary policy as "the principal stabilization tool." Even so, some differences persist among the moderate conservatives about the role of tax cuts to increase private saving and investment.

Beyond stabilization policies, in the long run, the centrist prescription emphasizes "three macroeconomic contributors to the growth of supply." First, to increase national saving and investment by reducing the federal budget deficit, through tax increases and cutting spending in defense and in entitlement programs; second, to improve the quality of education, although not by spending money alone; and third, to expand the support for civilian research through the improvement of funding allocations.

On the right of the spectrum Schultze places the old and the new monetarism, both based on an outright "pessimism about the ability of the government to carry out a countercyclical policy."

Within the monetarist camp, the "supply-siders" hold that "short term fluctuations in GNP arise principally from sporadic changes in aggregate supply," consequently, efforts to stimulate demand by fiscal and monetary means will be inflationary.

In a similar vein, the rational expectations school holds a hands-off approach to stabilization policy, whereby stable monetary and fiscal policies reduce uncertainty so that prices and wages are allowed to adjust demand and supply.

On the other side of the spectrum, appears what Schultze calls the "democratic left," constituted by three schools. First, those who hold that the federal budget deficit is overstated; second, those who recommend a large increase in public investment, even at the expense of the fiscal deficit; and third, those who recommend the adoption of an "industrial policy."

Professor Robert Eisner of Northwestern University is against centering economic policy around the budget deficit, for three reasons: first, the deficit should be adjusted downward to account for the effect of inflation on the government's debt; second, sharp reductions in the deficit should be avoided because these would depress aggregate demand and employment beyond the capability of an easier monetary policy; finally, unemployment is too high, which argues against increasing taxes or cutting expenditures.

Those who are in favor of a large increase in public investment identify infrastructure, highways, bridges and airports, as well as education, as the main recipients of expenditure increases. The underlying assumption is that a dollar spent in public infrastructure yields a higher payoff than private investment.

Finally, "liberal commentators and a few economists" are in favor of the adoption of an "industrial policy." They want the federal government to identify "strategic" industries, to stimulate them through protection against foreign competition, export subsidies and support for research and development. The key point is to entrust the government with the highly controverted task of "picking winners and losers."

More sooner than later, some of these proposals will certainly find their way into the platforms of the different presidential contenders. At this point, the question still unanswered is which ones are the winning propositions.

III. THE U.S. PRESIDENTIAL ELECTION

III. 1. THE ECONOMY AND THE ELECTION (WDW/22/92 22 JULY 1992)

Now that it has been confirmed that the November presidential election will be a race between two contenders, it is time to observe the state of the economy, particularly as it may influence the coming contest. After all, there is agreement that economic issues will be at the top of the voters concerns, given the present state of sluggish recovery that the economy is exhibiting.

In the terms of Seymour Lipset, the state of the economy still is the most accurate predictor of electoral behavior. As reported in The New York Times, Professor Allan J. Lichtman of American University, in his book The 13 Keys to the Presidency, has found that every time the economy has been in recession, since the Civil War, the opposition has won the Presidential election. Of the seven cases mentioned, the most recent are F.D. Roosevelt (32); J.F. Kennedy (60); and Ronald Reagan (80).

In the same sense, Professor Michael S. Lewis-Beck of the University of Iowa has found that a falling unemployment rate during the second quarter of an election year coincides with victory by the incumbent party, as with Truman (48); Johnson (64); Nixon (72); Reagan (84) and Bush (88). By contrast, a rising or flat unemployment rate during the second quarter of election years coincides with defeat for the incumbent in five out of six elections, as with the victories of Eisenhower (52); Kennedy (60); Nixon (68); Carter (76) and Reagan (80). The sole exception was Eisenhower's reelection (56).

Also, an analysis of the rate of growth of the gross national product (GNP) in postwar election years reveals that an average growth rate of 4.6 percent prevailed when the incumbent party was reelected, while an average rate of 2.98 percent prevailed when the incumbent was defeated.

For these reasons, several figures recently released do not augur well for the Administration and have made the chairman of the Council of Economic Advisers (CEA), Michael Boskin, say he was "very concerned."

First, on July 3, the Labor Department reported that the unemployment figure for June had increased by three tenths of a percentage point, to 7.8 percent. More worrisome still was the fact

that among some of the hardest hit appear those states that contribute the largest numbers of electoral votes. For instance, California posted the highest jobless rate, growing from 8.7 percent in May to 9.5 percent in June. New York, with 9.2 percent unemployed in June, registered the biggest increase of 1.3 percent, while in New Jersey the percentage of jobless reached also 9.2 percent in the same month.

The immediate response by the Federal Reserve came the next day, in the form of a cut of half a point in the discount rate, to 3 percent. This was the twenty fourth reduction in interest rates approved by the FED since mid-1989, which has brought short-term interest rates to their lowest levels in three decades. Even so, on July 16, the Federal Reserve disclosed that the growth of the money supply, as revealed by M2 which includes currency, checking deposits and certificates of deposit under \$100,000, was only of 1.5 percent, well below the target of 2.5 to 6.5 percent.

Finally, the rate of growth of the gross domestic product (GDP) for the first quarter of this year was 2.7 percent, the strongest quarter of the last three years. However, as in the summer of last year, several indicators by the end of May began revealing a turn for the worst, raising fears that the recovery might be faltering again.

Besides a discussion about the actions that could be adopted in response, the bad news immediately generated a serious split, among the Administration's economic team, concerning the way the outlook for the economy should be presented to the public.

As depicted by The New York Times, on one side appear the White House Chief of Staff Samuel Skinner and Treasury Secretary Nicholas Brady holding that "as a rule the President should talk favorably about economic prospects to build public confidence as the election approaches."

On the other side appear Vice-President Dan Quayle and CEA Chairman Michael Boskin holding that "the President should not seem optimistic lest voters see him as unsympathetic and out of touch with their economic troubles." Their concern is that the President will "look remote and uninformed if he is upbeat in his public statements."

Concerning the actions that could be taken, the Vice-President and the CEA Chairman are in favor of "pressing Congress hard for what President Bush calls his 'growth package'--primarily tax breaks to increase investment and stimulate construction and real state."

By contrast, Secretary Brady and Chief of Staff Skinner "believe the President would lose such a fight with the Democratic

Congress and should not risk a confrontation."

The difficulty is that some observers believe that not much time is left before the perceptions of the voters become fixed. The common wisdom is that voters begin to focus seriously on the election until the fall. However, at least one experienced commentator disagrees. The chief domestic political adviser to President Carter, Stuart Eizenstat, says that "voters lock into the economy, not on Election Day but the summer before. And unless something really dramatic happens, unless there's a really big change in circumstances, their perceptions don't change."

III. 2. CLINTONOMICS
(WDW/23/92 29 JULY 1992)

The most quoted statement on economic policy that came out of the Democratic Party convention, held last week in New York, was made by former congresswoman Barbara Jordan when she described the shift "from a party with a reputation of tax and spend to one of investment and growth."

As stated in the 22-page "National Economic Strategy," aimed at Putting People First and presented last June by Governor Clinton, "the most important family policy, urban policy, labor policy, minority policy and foreign policy America can have, is an expanding entrepreneurial economy of high-skill, high-wage jobs."

The centerpiece of this strategy is public investment, wrote in The New York Times Harvard Professor Robert Reich, one of the best known members of Governor Clinton's economic brain-trust. The first element of the proposal is \$219.5 billion in new public investment, to be spent over the next four years. One half of this sum will be "invested in people," in education, training and scientific research. The other half would be used to establish a "Rebuild America Fund," to finance infrastructure projects, such as connecting major cities by high-speed rail, control toxic wastes, develop clean and efficient energy sources, link every home and classroom to a national information network and upgrade urban transportation, water and sewage systems.

This emphasis in public expenditure immediately leads to the issue of the federal budget deficit. In this regard, the proposal aims at more than offsetting the new spending programs by means of \$294.7 billion in budgetary savings and new revenue, which would result in a net reduction of government spending over the next four years.

The Clinton proposal is also in line with the projections made by the Congressional Budget Office (CBO) in the sense that, even under the assumption of no change in policy, the budget deficit will be cut in half by 1996, to \$193 billion. However, without an increase in economic growth, the director of economic policy for the Clinton campaign, Gene Sperling, conceded that their proposal would cut the deficit only by \$8 billion, although it would allow for granting a tax cut for the middle class of about \$17 billion by 1996.

Consequently, the almost \$295 billion in new spending proposed would have to come from other sources. First, in the terms of Professor Reich, "the investments in people would be financed largely by a tax increase on the top 2 percent of income earners," expected to yield \$92 billion over the next four years. This would increase to 37 percent the tax rate for couples earning more than \$200,000, from the present ceiling of 28 percent resulting from the bipartisan congressional agreement of 1986. Second, one third of the infrastructure investments would be financed from outlay reductions, such as defense cuts amounting to \$43 billion. Third, \$58 billion would come from closing tax loopholes, particularly those enjoyed by foreign corporations. Finally, "administrative savings" amounting to \$8.5 billion, such as eliminating 100,000 workers from the federal payroll, which are equivalent to the cuts in the federal bureaucracy accomplished by the Eisenhower Administration after the Korean War.

Another central aspect of the proposal is the support it grants to what Hobart Rowen in The Washington Post called an "industrial policy with another name," by means of the promotion by the government of key technologies and industries. The main components of this policy are the creation of a new civilian research and development agency, as well as tax credits to encourage investment in new plants and long-term investments.

This also leads to the pressing issue of free trade, particularly to the position that will be adopted regarding the imminent subscription of the agreement creating a North American Free Trade Area (NAFTA). Until now, Governor Clinton's position has been described in The New York Times as seeking "to buy time," saying that "he believes in free trade in principle while withholding judgment on the pact with Mexico until he sees the details--particularly the ones involving labor standards and environmental protection."

Finally, the appointment of Senator Albert Gore as running mate can be interpreted as a signal about the priority that will be granted to environmental issues. Senator Gore is the author of the best seller Earth in the Balance: Ecology and the Human Spirit (Houghton Mifflin, 1992). In this book appears the statement, Senator Gore used in the speech accepting the nomination as Vice-

Presidential candidate, urging that "we must make the rescue of the environment the central organizing principle for civilization."

All these propositions are now submitted to the intense debate and scrutiny of the political campaign. On one side, Harvard professor Martin Feldstein wrote, in The Wall Street Journal, "the proposal flunks the budget test," because it "ignores the deficit in order to finance new government spending and a reduction in middle class taxes." On the other side, six winners of the Nobel prize in economics have praised the plan: professors Kenneth Arrow, Stanford; Lawrence Klein, Pennsylvania; James Tobin, Yale; and Franco Modigliani, Paul Samuelson and Robert Solow, MIT.

In the words of professor Samuelson, "Clinton's economic program makes prudent sense, America most needs capital formation--human and material capital, private and public capital."

III. 3. THE ELECTION OF GOVERNOR CLINTON
(WDW/33/92 11 NOVEMBER 1992)

It is well known that there is a predilection for interpreting the history of the United States in terms of cycles. For instance, Arthur Schlesinger Jr. holds that U.S. domestic political history has an "inherent rhythm," defined as "an alternation between liberalism and conservatism at about 30-year intervals." Others, in foreign policy, have found alternations between idealism and realism, or between extroverted internationalism and introverted isolationism.

It is to Schlesinger's credit that in his book The Cycles of American History, published in 1986, he predicted that "at some point, shortly before or after the year 1990, there should come a sharp change in the national mood and direction." And change came in the form of Governor Clinton's victory, accurately characterized by Schlesinger as the turn towards a liberal phase of the cycle, "with its commitment to public action, idealism and reform."

Schlesinger also foresaw that "it is the generational experience that serves as the mainspring of the political cycle." Accurate again, President-elect Clinton and Vice-President Gore both were born after the Second World War, they are the first presidential ticket to be elected from the so-called "baby boom generation." Moreover, in Schlesinger's terms, "people tend to be formed politically by the ideals dominant in the years they attain political consciousness, say between 16 and 25." Hence, the victorious candidate's identification with President Kennedy, as well as with the 1960 election, "when a 43-year-old Democrat replaced a 70-year-old Republican incumbent," reminded David Broder

in The Washington Post. Additionally, there is the decisive role played in the political formation of the President-elect by the Vietnam War.

Finally, Schlesinger finds no coincidence between these domestic, thirty-year generational cycles of "alternation between public purpose and private interest" and the "cyclical rhythm" that allegedly exists as well in foreign policy, or the alternations between "extroversion" and "introversion." Once again this is quite accurate, because by contrast with some previous experience, such as the elections of John F. Kennedy or Franklin D. Roosevelt, this time the turn towards activism in domestic policy coincides with a turn towards introversion.

There are several indications coming out of the campaign, as well as from the transition team, that domestic economic issues will be the dominant priority of the incoming Administration, with international affairs occupying at best a secondary position in the new agenda.

First of all, to quote the now famous slogan which inspired the handlers of the Clinton campaign, "it's the economy, stupid." There is consensus that the economy was the most salient issue of the election and the one that more voters cited as their dominant concern. Additionally, as confirmation of the turn towards introversion, by contrast, only 8 percent of the voters cited foreign policy as their main concern, and most of them voted for President Bush. However, it was not only the economy in itself which dominated the campaign and the election, but how much government action is required to keep the economy in motion at acceptable rates.

Second, as announced by the heads of the transition team, one of the first activities will be to convene in Little Rock, Arkansas, a group of business leaders and economists to have a conversation "about priorities," declared the well-connected Washington lawyer, Vernon E. Jordan, chairman of the transition commission. Also, after the inauguration, one of the first measures will be the creation of an economic security council. Modeled after the National Security Council (NSC), the new economic council will be headed as well by an assistant to the President for economic affairs, to coordinate the functioning of all the cabinet departments that handle economic affairs. One of the names most frequently heard to occupy this position is Harvard Professor Robert Reich, well known for his advocacy of industrial policy and its complement, managed trade. It has also been suggested, as an indication of the priority given to domestic economic affairs, that the position of Secretary of the Treasury will be filled before the appointment of Secretary of State, traditionally the first appointment made by an incoming President.

Finally, during the campaign, several international economic issues, such as trade, investment and economic assistance, were addressed in ways which reveal the ancillary role assigned to them, as instruments for the accomplishment of what are seen as relatively more urgent domestic economic priorities.

In these terms, Schlesinger is once again accurate in predicting that the domestically active phases of the cycles of U.S. politics do not necessarily coincide with an outward looking and active phase in foreign policy. Thus, this time, the United States will turn inward to carry out the process of healing its domestic economy. Be it as it may, amidst the sluggishness which presently prevails in the international economy, the reactivation of the U.S. economy, more than anything else, will make a more decisive contribution to the prosperity of the world economy. Consequently, never mind if such reactivation demands for a while a period of introversion, whereby international economic issues will perhaps be submitted to what Hirschman, quoting Burke, called "a wise and salutary neglect."

III. 4. PRESIDENT-ELECT CLINTON'S ECONOMIC TEAM FOR THE TRANSITION (WDW/35/92 25 NOVEMBER 1992)

It is fascinating to witness, as the transition progresses, how the battles over principles or over ideas are rapidly becoming battles over persons. As anticipated by the campaign promise of prioritizing the economy, the members of President-elect Clinton's economic team have already been designated to manage the transition. Immediately, the release of the names has unleashed an outburst of comments and leaks, evidence of the intense power struggles that are taking place behind the scenes. After all, the transformation of principles or promises into policies has to be mediated by power, which ultimately crystallizes in those who are responsible of wielding it.

One of the first names released was that of Harvard Kennedy School Professor Robert Reich, to head the economics transition team. He is well known for his book The Work of Nations, where he advocates some of the policies of governmental activism which allegedly have been among the ongoing topics of discussion with the President-elect, since they both were first Rhodes Scholars at Oxford and then classmates at Yale Law School.

To assist Professor Reich in the preparation of concrete proposals on different issues other names were released, and all of them are already seen as well positioned to occupy decisive posts in the new Administration.

Among them, Harvard Professor of economics Lawrence Summers, former advisor to Governor Dukakis and since Thursday on leave from the post of World Bank's Chief Economist, is in charge of economic policy. Berkeley Professor of economics and business administration Laura D'Andrea Tyson will deal with technology and manufacturing, her most recent book is "Who's Bashing Whom; Trade Conflict in High-Technology Industries." Business consultant Ira Magaziner, also a Rhodes Scholar, will deal with budget cuts, while budget consultant Letitia Chambers will deal with the overall budgetary process. Georgetown Law School Professor Barry Carter will deal with trade and Occidental College Professor of urban studies Derek Shearer will deal with education for competitiveness. Finally, to assist Professor Summers on economic policy have been appointed Robert Shapiro, from the Progressive Policy Institute, Robert Rubin, co-chairman of Goldman Sachs, and Roger Altman, a classmate of the President-elect at Georgetown University who is a partner of the Blackstone Group, a New York investment bank.

Some names which do not appear in the transition team are also mentioned for high level positions, such as former Federal Reserve Chairman Paul Volcker, Alice Rivlin from the Brookings Institution, MIT Professor Paul Krugman and Senator Lloyd Bentsen (D-Tex.).

However, the primary focus is on Professor Reich, described in The New York Times as a "noneconomist" and "the only economic adviser with daily access to Mr. Clinton," as well as the President-elect's "chief thinker on economics."

Mr. Reich's work is said to have been criticized "by trained economists, mostly on the ground that he is a lawyer, not a Ph.D. in economics." Furthermore, such criticism is presented as the explanation of why "Mr. Reich, who is on leave from Harvard, has failed to get a tenured professorship at the Kennedy School."

The Times admits that "the criticism of Mr. Reich's credentials in economics has intensified with his appointment last week as chief of the economics transition team." An allegation Mr. Reich "has countered by declaring that he is seeking advice from numerous trained economists and is relying in particular on Lawrence Summers."

The reaction to this last statement from Stanford Professor Robert Hall, characterized as "a spokesman for university economists," was that "Reich is an enigma to economists, and I am glad Larry Summers is there."

Under scrutiny by The Wall Street Journal is Professor Tyson, for holding that "subsidies to key export industries, selective trade retaliation against foreign countries and government negotiations to achieve an increased share of foreign markets--so-called managed trade--can all improve economic well-being." Also,

Professor Tyson "carefully distinguishes between good trade activism and bad trade activism; but she doesn't provide much guidance on how to get government to do the same." However, concludes THE JOURNAL, "the real challenge for Mr. Clinton is to make Washington work the way his advisers want," because "decisions in this city aren't based on her (Professor Tyson's) principles; they are based on power."

Finally, according to The Washington Post "the snub to economists" came from the fact that "Candidate Clinton's inner circle of young economic advisers included two lawyers, a business consultant, a professor of urban planning, two investment bankers, a speech-writing policy analyst, two journalists and the vice-president of a Washington think tank--but no certified economists." The Post explains "the ascendancy of...these baby boomers" as "a generational shift that will expand the economic debate to ground-level micro-economic concerns, such as training, technological innovation and improved management techniques, from all-encompassing macroeconomic issues, such as money supply and currency values."

In the terms of MIT Professor Paul Krugman, 39, "for people in their fifties, the cutting edge of economics was to show how markets were perfect...for people in their thirties the cutting-edge work is now in showing how markets are imperfect."

VI. THE BURST OF THE BUBBLE

VI. 1. JAPAN IN RECESSION (WDW/30/92 21 OCTOBER 1992)

Hard to believe, as it is, the Japanese economy has fallen into a slump, which according to some analysts is not only different from previous recessions but also is having some profound internal and external consequences. Even so, several key indicators reveal also that this recession is not so different from previous downturns, which gives ground to a certain degree of optimism. Once again, it is hoped, the Japanese economy will pull out at a rate of 5 percent in GDP growth, as it did in the mid-eighties to overcome the slump caused by the appreciation of the yen.

On a yearly basis, manufacturing and mining decreased 4.2 percent, while housing starts dropped 7 percent and corporate earnings fell 16.1 percent during fiscal year 1991 and are expected to decline 6.4 percent during this year. Still, other fundamental indicators give ground to the hope that the recession will be shallow. After all, this is Japan and even in the middle of a recession there is a labor shortage and little excess capacity in the manufacturing sector. The housing market is also experiencing a revival, with sales of existing condominiums rising modestly, after three years of decline.

Furthermore, the government is not idly waiting for the turnaround. Contrary to what is happening in other industrialized countries, Japan is the only member of the Group of Seven (G-7) with a budget surplus. By the end of last August, the government approved the largest reactivation package in the nation's history, amounting to \$86 billion, more than doubling spending in public works and to strengthen the financial system by supporting the stock and real state markets. Thus, "the Ministry of Finance and other Government agencies have finally accepted the view that the Japanese economy is very weak," declared to The New York Times, Mr. Yoshihisa Kitai, an economist with the Long Term credit Bank of Japan.

The unprecedented magnitude of this reactivation package, amounting to 2.3 percent of GNP, is better understood as a response to some of the extraordinary features exhibited by the present recession. First of all, now it is recognized that the government was too harsh in its stepping on the brakes. After two successive years of 5 percent growth in the mid-eighties, it appears that the

soft landing engineered with the purpose of bursting the speculative bubble in land and stocks, which was leading to a severe labor shortage, went a bit too far.

For instance, when the reactivation package was announced, the Nikkei stock index was close to crossing the key mark of 15,000 and there was speculation of a plunge into the 12,000 mark. As expected, the stock market reacted, reaching around 18,000 by mid-September and it was projected to regain the March 1992 level of above 19,000, but several analysts cautioned that such outcome depends on continued government support.

Additionally, lowering astronomical land prices, which were feeding the speculative bubble by remaining at more than eighty times above those of New York City, has been momentarily set aside. At least \$6.4 billion of the reactivation package are earmarked for housing assistance, as well as \$12.4 billion to buy land for future public projects. Moreover, the bulk of the package, \$31.4 billion for public works, includes at least fifty percent dedicated to land purchases.

Such stimulus to the real estate market will certainly help the ailing banks, promised tax breaks to write off bad loans and the creation, by the end of the year, of a quasi-public company to buy up some of the bad loans and the inflated real estate held by the banks. To appreciate what this means, suffice it to say that the cost of the rescue of the savings and loans in the United States pales when contrasted with the preliminary estimates of what is required to set up this bailout company to salvage the Japanese banks. After all, the magnitude of the bailout corresponds to the fact that fifteen of the world's largest banks are Japanese.

Finally, the recession is testing the institution of lifetime employment in the private sector, since the labor shortage which has prevailed to sustain it seems to be evaporating. According to figures released by the Labor Ministry, by the end of August, there were still 104 jobs available for each 100 persons looking for work, but the same figure in August 1991 was 147 jobs available for every 100 persons looking for work. Also, add 800,000 persons classified as "in-house unemployed," meaning those who are employed but have little or no work, and the unemployment figure increases from a very low 2.2 percent to an unprecedented 3.5 percent.

The international implications of how the Japanese economy will finally pull out of this extraordinary slump can only be dimly anticipated. First, there is the possibility that some Japanese banks will try to repatriate some of their overseas assets. For instance, Japanese banks hold 12 percent of total commercial-bank assets in the United States and in California they hold nearly a quarter of all bank deposits.

A sudden repatriation of some of these assets can destabilize stock markets and push even higher the value of the yen, which in September soared at around 120 to the dollar and brought Japan's embarrassing trade surplus to an all-time high of \$12.1 billion, mainly because the recession is dampening import demand while exports remain unaffected. No wonder, the Bank of Japan's quarterly survey of business sentiment revealed that business confidence was at the lowest level of the last fifteen years.

VI. 2. THE BAILOUT OF JAPANESE BANKS
(WDW/32/92 4 NOVEMBER 1992)

On October 30, the powerful bankers federation of Japan, headed by Tsuneo Waikai, President of the Mitsubishi Bank, unveiled a long-awaited plan to rescue the country's lending institutions. Thus continued the aftershocks caused by the bursting of the speculative bubble in land and stocks, which was feeding the unprecedented financial boom that placed fifteen Japanese banks among the world's largest (WDW/30/92).

To appreciate the magnitude of the problem, according to the Finance Ministry, as of September 30, the amount of non-performing loans --those on which no interest had been paid for the last six months-- in Japan's twenty-one largest banks reached 12.3 billion yen, or \$100 billion, an increase of 54 percent from the \$65 billion registered in March. However, these figures were received with skepticism among some analysts, because they do not include other loans which are being supported artificially, either because the borrower made only one interest payment in six months or because interest rates had been reduced to avoid outright defaults.

If these other loans are included, the amount of non-performing loans is estimated at 30 trillion yen, or about \$244 billion, while a few analysts place this figure at closer to 60 trillion yen, or \$492 billion. Additionally, almost half of the non-performing loans were estimated by Professor Yukio Noguchi of Hitotsubashi University, quoted in The New York Times, as "complete losses."

These figures make the rescue of the savings and loans institutions in the United States look paltry, since it is estimated that their bailout will cost the taxpayers around \$200 billion. However, Japanese officials denied that their rescue package would resemble the Resolution Trust Corporation of the United States, precisely because this last was created with taxpayers money.

In Japan, the creation of a corporation to purchase non-performing loans is also envisaged, but it will be different because the initial \$50 million in capital will come from the participating banks. The corporation will purchase the non-performing loans with money borrowed from the bank selling the loan. Thus, if the value of the real estate held as collateral increases, the bank selling the loan will be entitled to any increase in the value. Also, since the loans will be sold at less than face value, the bank selling the loan will deduct the difference from its profits before taxes, in effect allowing them to save considerable amounts in taxes and granting them what was immediately characterized as "a huge benefit." Finally, if the collateral is sold at even lower prices than purchased, the bank selling the loan would have to pay the difference.

Most reactions to the proposal were skeptical. First, it was said to favor the strong banks rather than those smaller institutions which exhibit higher ratios of non-performing loans. Second, even with the tax advantages, there is the suspicion that the taxpayers will have to assume a heavier burden, particularly if the situation of the weaker banks is addressed. Finally, there is the issue of what is the real price of real estate assets in today's paralyzed market, where it is not a matter of "prices going up or down," according to a senior Finance Ministry official quoted in The New York Times, but "the problem is that people don't know the price."

However, beyond the details of how the bailout of the banks will take place, there are several other manifestations of the slump in which the Japanese economy has fallen that are already contributing to unprecedented exercises of "soul searching," unheard of before during any contemporary recession.

For instance, some of the reviled positions held by a group of Western scholars and commentators, baptized as "revisionists, are gaining ground in Japan. Led by Professor Chalmers Johnson from the University of California, as well as by journalists Karel van Wolferen, author of The Enigma of Japanese Power, and James Fallows, former correspondent of The Atlantic in Japan, the basic "revisionist" argument was that the Japanese version of capitalism was "different." Consequently, it could not be treated in the same manner as the relations with other capitalist countries.

Some of these arguments were previously dismissed as "racist." But none other than Mr. Akio Morita, chairman of Sony and co-author of The Japan that Can Say No, recently wrote an article warning that "European and American tolerance of Japanese practices is reaching its limits." Thus, he appealed to Japanese firms to increase dividends and wages, to reduce working hours, as well as to scale back their aggressive capital spending and foreign-market penetration. As baptized by Mr. Gaishi Hiraiwa, the chairman of the

mighty business organization Keidanren, Japanese corporations will now practice "kyosei," understood as symbiosis or coexistence with adversaries. Also, an advisory panel to Prime Minister Miyazawa, chaired by Mr. Tadahiro Sekimoto, chairman of NEC, the telecommunications giant, has proposed to change the "keiretsu system," or the in-breeding among corporate giants believed to be responsible for the aggressive pursuit of market share at all cost.

Some skeptics dismiss "kyosei" as a "clever gimmick," or as a "smoke screen to make virtue out of necessity." Even so, others see in it an indication of the impact of the recession. In the terms of Mr. Yoh Kurosawa, chairman of the Industrial Bank of Japan, "the Japanese have learned a great deal from the collapse of the bubble economy...they have glimpsed into the abyss."

V. THE DEVELOPING ECONOMIES

V. 1. ENVIRONMENTALISTS VS. ECONOMISTS (WDW/6/92 26 FEBRUARY 1992)

On the verge of issuing this year's World Development Report, dedicated to the environment and development, there is evidence that an intense debate is under way within the World Bank, pitting environmentalists against economists. At issue is the conciliation of two rationalities, revealed through one of the least effective, though one of the most revealing weapons available in the arsenal of bureaucratic infighting.

Excerpts of an internal memorandum drafted, on December 12, by the Bank's Chief Economist, Lawrence Summers, were leaked and published in The Economist of February 8. As admitted by Mr. Summers, these excerpts previously achieved such "wide circulation within the Bank," that he felt it necessary to re-issue, on January 14, the original memo containing, among others, comments on export performance, trade flows and regional groupings. The portion leaked to the press was dedicated to answering the question "shouldn't the World Bank be encouraging more migration of the dirty industries to the LDCs?" To answer this question, Mr. Summers makes the following three points:

1) If the measurement of health impairing pollution is based on the foregone earnings from increased morbidity and mortality, the countries where health impairing pollution has the lowest cost are those with the lowest wages. Thus, concludes Mr. Summers, "the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that."

2) "The costs of pollution are likely to be non-linear as the initial increments of pollution probably have very low cost." Consequently, Mr. Summers concludes, "underpopulated countries in Africa are vastly under-polluted, their air quality is vastly inefficiently low compared to Los Angeles or Mexico City." Furthermore, "only the lamentable facts that so much pollution is generated by non-tradable industries (transport, electrical generation) and that the unit transport costs of solid waste are so high prevent world welfare enhancing trade in air pollution and waste."

3) Finally, "the demand for a clean environment for aesthetic and health reasons is likely to have very high income elasticity." Thus, "the concern over an agent that causes a one in a million change in the odds of prostrate cancer is obviously going to be much higher in a country where people survive to get prostrate cancer than in a country where under 5 mortality is 200 per thousand. Also, much of the concern over industrial atmospheric discharge is about visibility impairing particulates. These discharges may have very little direct impact. Clearly trade in goods that embody aesthetic pollution concerns could be welfare enhancing. While production is mobile the consumption of pretty air is a non-tradable."

To conclude, Mr. Summers recognizes that "the problem with the arguments against all of these proposals for more pollution in LDCs (intrinsic rights to certain goods, moral reasons, social concerns, lack of adequate markets, etc.) could be turned around and used more or less effectively against every Bank proposal for liberalization."

The press reacted immediately. The Economist first published portions of the memo under the headline "Let them eat pollution." Michael Prowse, in the column "On America" of The Financial Times said "Save Planet Earth from economists." The Secretary for the Environment of Brazil, quoted in O Estado de Sao Paulo, said it was "a scandal" and requested an explanation from the Bank. The Independent's headline was a quote, 'Send pollution to the Third World.' The Times of India said "the memo would be welcome by those who do not want economics to be polluted by social or humane considerations." Concluding that the memo "favors equity since it wants to abolish the islands of underdevelopment, which through this conspiracy have managed to keep their air clean."

The reactions in the press, as well as the fact that the memo was leaked probably to score points in an internal debate, indicate how far the issue is from forming part of a consensus between environmentalists and economists.

Finally, the President of the World Bank made a statement in one of the stops of a visit to Africa, that took him to Zimbabwe, Tanzania, Zambia and South Africa. Mr. Preston said, "the comments were taken out of a longer document... which was meant to be a provocative document... but that language is really outrageous and not acceptable taken outside the full content of the memorandum." Mr. Preston also said that "in life I think very bright people say some very foolish things and this is an example of that, and as far as I am concerned the incident is closed." Mr. Preston concluded saying "the Bank's position on the environment is set by the management and it's approved by our executive directors, and Mr. Summers supports that position."

The incident may be closed but the debate is far from being so. Mr. Summers wrote to The Economist, on February 15, saying his memo "tried to sharpen the debate on important issues by taking as narrow-minded an economic perspective as possible." Another heavyweight, Columbia University Professor Jagdish Bhagwati, presently economic adviser to the Director General of GATT, wrote in The Financial Times, "no modern economist, when his house is on fire, will pull his father out before his mother because the father earns more than the mother!... Economists and environmentalists should join hands to create a shared success."

V. 2. THE EXTERNAL DEBT OF DEVELOPING COUNTRIES
 (WDW/2/92 29 JANUARY 1992)

In stark contrast with the decade of the eighties, this year's World Debt Tables, issued in two volumes by the World Bank at the end of last year, begin by recognizing that "on the whole, the debt burden of developing countries is not projected to show much change in 1991, despite an unfavorable external environment." Another way of saying that the issue has lost saliency, because "debt stocks are projected to be static and debt indicators to show only small changes from their 1990 levels."

According to the World Bank's Chief Economist, Lawrence H. Summers, "the debt problem muddled along in 1991 with progress in some areas but regress in others." Consequently, the debt issue has not vanished, since "underlying this aggregate picture are important differences across regions and country groups."

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

1) At the end of 1991, the total external debt of all developing countries was projected to reach \$1.35 trillion, unchanged from the \$1.34 trillion it reached in 1990.

2) Aggregate debt stock indicators for developing countries in 1991 are projected to be mixed, with 176 percent of debt-to-exports ratio, the same as in 1990, 38 percent of debt-to-GNP ratio, down from 42 percent in 1990, and the debt service-to-exports ratio higher at 21 percent, compared to 20 percent in 1990.

3) Total external debt owed by Latin America and the Caribbean in 1991 is projected to decrease to \$429 billion, from \$431 billion in 1990, or almost 37.4 percent of GNP, down from 41 percent in 1990, representing 268 percent of total exports of goods and services, up from 261 percent in 1990, with the debt service-to-exports ratio rising "significantly to 30 percent from 25 percent

in the preceding year."

4) Aggregate net resource flows are projected to rise in nominal terms to \$84.9 billion, compared with \$81.5 billion in 1990, but to fall by 1 percent in real terms. The composition of these flows is expected to confirm recent trends, a continuing shift from bank to nonbank sources and from debt to equity flows, including foreign direct investment and portfolio flows. For instance, in 1991, the official share in net flows--development finance comprising official loans and grants--amounted to the same 60 percent of 1990, up from one third in 1981; net commercial bank lending now accounts for only about 5 percent of net flows, compared with 40 percent a decade earlier; while private flows account now for only 10 percent, compared with about 50 percent a decade ago; finally, foreign direct investment accounts now for about 30 percent, compared with 13 percent ten years ago.

5) A continuation of non-debt flows to Latin America is projected, although net transfers--net resource flows less interest payments and profit remittances--are still projected to remain negative, rising from \$6.3 billion in 1990 to \$8.6 billion in 1991. This projection of net outflows from Latin America is based on the assumption of interest payments related to the clearance of arrears.

6) The aggregate picture is said to mask the problems faced by the severely indebted low-income countries (SILICs), which have experienced rising debt stocks and little or no improvement in debt ratios. Indebted largely to official creditors, exhibiting low per capita income and productivity, as well as afflicted by "structural weaknesses, including poorly diversified exports, low levels of education and health, and high rates of population growth," the SILICs require "an expanded menu of debt relief options."

7) A few middle income countries, such as Chile, Mexico and Venezuela, have been able to emerge from commercial bank debt reduction with renewed access to the international capital markets, through both debt and equity flows. Thus, the experience with the Brady Initiative reveals that "official finance within a voluntary market-based framework has helped support significant debt reduction leading to improved domestic investor confidence."

8) Eastern Europe has benefitted from growing official support, with net disbursements mainly from the World Bank and the IMF projected to rise, excluding Yugoslavia, to \$8 billion in 1991, from \$800 million in 1990. The former Soviet Union, admittedly based on estimates subject to considerable uncertainty, is "no more than severely indebted by international standards." In 1991, debt service on medium- and long-term debt would have amounted to between \$10-14 billion, including \$6 billion in interest payments; short-term bank credits would have been about \$6-8 billion; and

debt service to Paris Club creditors would have been about \$5.7 billion.

9) The Paris Club's extension of exceptional debt relief to Poland and Egypt is listed as an important positive development.

10) Finally, the concern about an "abrupt rationing of capital" is dismissed on the grounds that developing countries account for only about one-fifth of the global economy and less of net capital flows.

"In summary," concluded Mr. Summers' opening statement presenting the World Debt Tables, "the call of the G-7 Summit for greater debt relief for low-income countries, the Paris Club restructurings for Poland and Egypt, and the renewed access of Chile, Mexico and Venezuela to private sources of finance, are encouraging signs that the debt problem can be resolved."

V. 3. DISSENT OF DEVELOPMENT
(WDW/5/92 19 FEBRUARY 1992)

Heralds of the so-called "Washington consensus" should be concerned because some profound fractures are becoming visible in one of its most solid strongholds.

Two debates about development issues at the World Bank have become public, revealing that the "consensus" is not as firm as some of its advocates would like to. One of these debates was generated by a report, in four volumes, presented to the Board of Directors by the Operations Evaluation Department (OED) on Industrialization in Newly Industrializing Countries - Case Studies of Korea, India and Indonesia. The other, probably of more profound significance, is the dissenting opinion expressed by Japanese representatives about the Bank's approach to structural adjustment.

Probably the Bank's OED study on industrialization would have passed unnoticed, as many others have, except that this time the management came out openly against "a wide distribution of the report in its present form outside the Bank."

The study deals with the Bank's "approach to industrial strategy" in the three countries already mentioned, with the first of the four volumes presenting analysis, synthesis and recommendations, while the other three contain the case studies of the Republic of Korea, India, and Indonesia.

It is impossible to summarize all the different issues raised in the study. Nonetheless, probably the management's reaction can be better understood if the following are considered. The Bank's approach to industrial policy is characterized in the report as "moderate neoclassical," because it "accepts that factor and product markets are not fully efficient in developing countries and that there is a role for government interventions."

However, the Bank seems to prefer "functional" instead of "selective" interventions. Both are aimed at correcting market failures, with the first doing it generically, while the second supports specific activities over others. The Bank prefers to focus on "incentive factors" and to ignore structural factors, such as skills, technology and institutions. There is a strong tendency at the Bank to remedy failures in factor and product markets by maintaining neutrality among activities. Finally, "the Bank displays an ambiguous attitude to issues of industrial strategy," while it exhibits a propensity to emphasize the failures of intervention.

The response from the management contains the following points. First, the three case studies are too limited and Korea is "an outlier on the spectrum of developing countries." Second, not all the work done by the Bank on industrialization was taken fully into account. Third, insufficient attention is given to the regulatory environment and the financial system. Fourth, "the report gives too strong an endorsement to government intervention." Fifth, it "fails to comprehend the essence of government failure," particularly as intervention encourages "rent seeking behavior" among public officials and private agents. Finally, it "overstates the degree to which governments can develop subsector specific paths of industrial development," and it "calls for the impossible: fine tuning an array of trade and industrial interventions to deal with real or perceived market failures is generally not feasible."

So much for this confrontation, illustrative of the flourishing within the Bank of different viewpoints and of the existence of a healthy debate between them.

By contrast, the Japanese dissenting voice on the Bank's approach to structural adjustment is far more relevant, if only because it comes from "a major partner," or from one of the most important sources of cofinancing for structural adjustment loans.

The Japanese position is described in an occasional paper of the Overseas Economic Cooperation Fund (OECF), which instead of dealing with all the issues, simply mentions four points "that seem to have been overlooked by the Bank."

First, structural adjustments, including deregulation, will prove insufficient to generate sustainable growth; additional

measures are required "aiming directly at promoting investment," similar to the Japanese fiscal and monetary policies applied in the post-war. Second, "trade liberalization based on static comparative advantage may have a negative impact on the possibility of economic development," consequently, deliberate "measures for fostering industry are required...protection for a certain period of time is indispensable." Third, it is also "indispensable to have development finance institutions lending with subsidized interest rates, under some circumstances, in order to maximize the social welfare." Fourth, privatization efforts have to take into consideration the different conditions that prevail in individual countries; "unfortunately, the World Bank's approach seems to be almost similar for every country." Also, "another problem is the idea that all the private sector is to be treated equally, whether it be indigenous or foreign. This may be ideal from the standpoint of efficiency." However, since developing countries have had "a bitter experience with colonialism... it is necessary to adopt factors other than efficiency as the criteria for decision making when considering privatization."

The paper closes reminding that there are trade-offs between efficiency and fairness and calls for a balanced policy between both, "to improve the welfare of the entire society." For all these reasons, the OECF concludes that "the World Bank's approach to structural adjustment may have to be changed."

V. 4. DEVELOPMENT AND THE ENVIRONMENT
 (WDW/11/9 21 APRIL 1992)

The debate between environmentalists and economists at the World Bank, revealed by a leaked memo from the Chief Economist (WDW/6/92), seems to have been won, for the time being, by the economists. This is what indicates the approval by the Board of Directors of the Bank of the new World Development Report (WDR) 1992, to be released sometime in May, just in time for the Earth Summit.

The intensity of the debate, as well as the reasons for the leak, can now be better understood, because the WDR addresses some of the most sensitive points of the controversy and strives, with some degree of success, to strike a balance between these two rationalities.

First of all, as indicated by President Lewis Preston to the Bank's Board of Directors, this year's WDR constitutes the third leg of "a trilogy on the goals and means of development," together with the 1990 dedicated to poverty and last year's on development strategies. It is also a tribute to former President Barber

Conable, who sought, with the preparation of this trilogy, to signal the reorientation of the Bank towards a more pragmatic stance, loosening the grip of orthodoxy which prevailed during the first half of the eighties.

Evidence of this stance abounds throughout the Report. For instance, "the world has learned over the last two decades that markets can do more and governments should do less to promote development...But environmental protection is one area where government must maintain a central role. Private markets provide little or no incentive to curb pollution... there is a compelling case for public action."

The relationship between development and the environment, characterized as "a false dichotomy," is also explored pragmatically and it is anchored on development. The issue is described as "how environmental problems can and do undermine the goals of development," because the Report's "primary focus" is described as "the welfare of developing countries."

Two sets of policies are proposed "to attack the underlying causes of environmental damage." The first set seeks to identify the "positive (win-win) links between efficient income growth and the environment." Among these, "the most important...relates to poverty reduction: not only is attacking poverty a moral imperative, it is also essential for environmental stewardship." Other positive sum links are found in correcting or preventing government failures and improving access to technology and resources. The second set of policies is necessary because "sound development policies are not enough to ensure environmental quality." Policies to change behavior are also necessary, "to induce or require resource users to take account of the spillover effects of their actions on the rest of society." Two broad types of these policies are identified: first, "market-based policies, which tax or charge polluters according to the amount of damage they do;" and second, those based on quantitative restrictions, or "command and control policies." A combination of both is the "tradable permit," which sets an absolute limit on damage and allows individuals to buy or sell the right to pollute, thus, the quantitative restriction applies to the group, while it provides flexibility to individuals.

This reveals a major shift in the environmental debate, "away from a concern over physical limits to growth toward a concern about incentives for human behavior and policies to overcome market and policy failures." In other terms, the emphasis has shifted from a general definition of sustainable development, as the one sponsored, for instance, by the Bruntland Commission, toward a narrower definition based on "tradeoffs...made as explicit as possible," which demands "the ability to compare the costs and benefits of preserving different types" of resources.

Moreover, the Report recognizes that environmental problems "vary with the stage of development, the structure of the economy and the incentives framework." Also, it holds that "the most immediate and life-threatening environmental problems facing developing countries... are different from those associated with the affluence of rich countries..."

There is "no attempt to be comprehensive...but rather it seeks to identify the most serious challenges and suggests strategies to address them." Among the most urgent for developing countries, the Report identifies four basic challenges: water and sanitation, considered "the most important...of all;" clean air, from energy and industry emissions; land management and productivity; and those which cross national borders, such as atmospheric changes.

The identification of an agenda for action, to confront these challenges, includes an evaluation of the "overall extra costs for local environmental concerns," which could represent 2-3 percent of developing country gross outputs, estimated to amount to \$100 billion per year by the end of the 1990s. This requires additional development finance to address local environmental problems, which "should not be viewed as separate from ongoing development needs," while "industrial countries must bear the costs of addressing global challenges."

V. 5. PROSPECTS FOR THE DEVELOPING ECONOMIES
(WDW/15/92 3 JUNE 1992)

This is only the second year that the World Bank releases separately the analysis prepared by its International Economics Department for the World Development Report (WDW/11/92). By contrast with last year's, focused on international trade in primary commodities, this year's Global Economic Prospects and the Developing Countries is centered on international trade in manufactures. It contains the following three chapters: 1) the global economic outlook and the developing countries; 2) global conditions for international trade; and 3) interlinkages, human capital and export competitiveness.

The 1990s started badly for the developing countries. GDP growth at less than 2 percent in 1990 and 1991 and per capita income declining in both years, constitute the first time this has happened since 1965, when the World Bank started collecting data on these trends. However, the prospects for the developing countries during the rest of the decade indicate higher rates of growth of 4.9 percent, up from 3.2 percent in the eighties. This positive outcome depends from the implementation of improved policies in a mixed external economic environment, which is likely to include

slower growth in the industrial countries, on average at 2.6 percent a year; lower real interest rates, at around 3 percent; a cumulative increase in commodity prices of 15 percent in real terms; and scarce external finance.

The cornerstone of this relatively promising future is an increase in the export of manufactures by the developing countries, which can be decisively helped by external factors, such as lower trade barriers and higher growth rates in the industrialized countries. For instance, a 50 percent reduction in the trade barriers of the European Community, Japan and the United States could generate an increase of 15 percent in the exports of developing countries, or US \$54 billion in 1991 prices. This is almost equivalent to the aggregate net resource flows from official sources to developing countries, which in 1991 amounted to \$57 billion. Also, an increase of only one percentage point a year in the growth of OECD countries, sustained over three years, would raise the exports of developing countries by \$60 billion annually.

In this context, there are differences in the performance of developing countries during this decade. For instance, Sub-Saharan Africa is expected to grow at 3.5 percent per year, barely enough to keep pace with rapid population growth. Latin America will "improve sharply," with a per capita GDP growth of 2.2 percent a year in this decade, "based on a continued resolution of the debt crisis and a significant shift toward market-friendly policies." South Asian GDP per capita growth will remain near the rate of 3 percent of the previous decade, while East Asia "is unlikely to repeat its impressive economic performance of the past decade," although it will remain the fastest growing at a rate of over 5 percent of growth in per capita income. Finally, prospects for growth in Eastern Europe and the former Soviet Union "in the years ahead are highly uncertain." Even so, peace, reconstruction and policy reforms are expected to generate an aggregate per capita GDP rate of 1.6 percent annually, which contrasts positively with the decline of 1.6 percent of the eighties.

To sustain these rates of growth in the nineties, developing countries need to increase even more their exports of manufactures. This is feasible since even with the current levels of protection in the industrialized countries, manufactures already account for almost 50 percent of all merchandise exports from developing countries. This means that the rate of export growth in the developing countries is expected to rise from 5.8 percent in the 1980s to 7 percent in the 1990s.

Since almost 45 percent of world trade in manufactures already takes place within regional trading arrangements, the Report argues that global welfare could be enhanced, if lower trade barriers are maintained against third parties. However, the risk is recognized that these regional arrangements may turn inward, to the detriment

of the global trading system and of those developing countries which remain outside these arrangements.

Finally, as an indicator of the increased globalization of manufacturing production and marketing, by the early 1980s intrafirm trade within the largest 350 transnational corporations (TNCs) contributed about 40 percent of global trade. This increased specialization, within branches and within different stages of production, is opening possibilities for developing countries to become competitive low-cost suppliers of manufactures.

Nonetheless, the Report cautions that "remaining the low cost supplier requires more than cheap labor," it demands changes in technology, product mix and work practices, with all of these changes requiring "continuing improvements in the education and skill level of the work force." The conclusion is that "no country wants to depend on low wages to remain a low cost supplier. Raising living standards without losing international competitiveness means increasing productivity."

Consequently, two groups of developing countries are likely to emerge. Those "with a well educated labor force, and with open international trade and investment flows, are likely to absorb innovative production and management techniques rapidly." Second, those "that fail to develop information links or to emphasize human resource development will find increasingly difficult to compete successfully in the global market."

VI. TRADE

VI. 1. THE U.S. TRADE POLICY AGENDA FOR 1992
(WDW/8/92 11 MARCH 1992)

Section 1641 of the Omnibus Trade and Competitiveness Act of 1988, mandates that "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 released by the Office of the U.S. Trade Representative (USTR) on 28 February 1992.

This year's trade policy agenda comprises the same three objectives of last year's, grouped under somewhat different headings:

A) the successful conclusion of the Uruguay Round;

B) regional and bilateral trade liberalization initiatives with key trading partners, such as the completion "as soon as possible" of the North American Free Trade Agreement (NAFTA) with Mexico and Canada; further progress on the Enterprise for the Americas (EAI); and to increase access to specific markets, such as Japan's.

C) to use the strength of the U.S. domestic market to enforce trade agreements and "to encourage further sectoral market openings."

The draft Final Act issued by the Director General of the GATT, Arthur Dunkel, with some reservations, can be the basis for the successful completion of the Uruguay Round, which "could provide a \$1 trillion boost to the U.S. economy over the next decade, resulting in new and better paying jobs for American workers."

The regional and bilateral initiatives to promote trade liberalization are classified geographically. In the Americas, the NAFTA negotiation is considered "the most ambitious regional initiative presently under way," which has already produced "a consolidated but heavily bracketed text." Even so, on concluding the negotiations, it is said: "we will not let speed be the enemy of a good agreement, but we also want to complete the agreement as soon as possible so that we might soon begin capturing its

benefits." The EAI, as well as the Andean Trade Preference Act and the Caribbean Basin Initiative are specifically mentioned as building blocks of a free trade zone from Alaska to Argentina.

In the Pacific Rim, Japan is in first place and the objective is "to expand access to the world's second largest industrial economy," through "four tracks:" 1) sectoral agreements where "barriers and collusive practices in the Japanese market have impeded or precluded U.S. companies from making sales," such as paper products, flat glass, autos and auto parts; 2) to strengthen and expand the Structural Impediments Initiative (SII), by enforcing Japan's anti-monopoly laws, repeal the barriers which prevent the establishment of large retailers in Japan and creating more openings for private investors; 3) better access to the Japanese market through the Uruguay Round; and 4) to open up Japan's closed corporate markets.

China is cited as subject to two section 301 investigations, on deficient protection of intellectual property rights and on market access barriers, while the issues of textile fraud and goods made with prison labor are also mentioned as subject to investigation.

In Asia and the Pacific region the objectives are: 1) to increase market access for U.S. exports and 2) to encourage countries to adhere to multilateral trade rules and disciplines. Other long term goals include Korean membership in the Organization for Economic Cooperation and Development (OECD), participation in the GATT for Taiwan and China, the graduation of the members of the Association of Southeast Asian Nations (ASEAN) from developing country status and the creation of a regional organization based on the Asia-Pacific Economic Cooperation (APEC) process.

In Europe and the Mediterranean, the most important goals with the European Community are the completion of the Uruguay Round, as well as sectoral concerns, such as subsidies to civil aircraft manufacturers, steel producers, ship-builders and the oilseeds sector, quotas on U.S. films shown on television, and electrical and telecommunications utilities that exclude foreign products. Central and Eastern Europe will benefit from the Generalized System of Preferences, while in the Mediterranean the priorities are to strengthen Turkey's intellectual property rights, to improve the free trade agreement with Israel and to expand trade with the Arab world. In Near East Asia, the Section 301 investigation of India will be completed, while there is interest in expanding bilateral trade and investment in Africa.

Under sectoral negotiations appears replacing the Voluntary Restraint Agreements, before 31 March 1992, with a Multilateral Steel Agreement with 30 countries; the conclusion of the negotiations with the Airbus consortium countries, as well as with

the chief shipbuilding nations; and the replacement of the Multifibre Agreement, after 31 December 1992, by the new agreement reached within the Uruguay Round. Also, the "increasing overlap between environmental actions and trade policies" is specifically recognized, while the implementation of the 1988 Trade Act and other statutes is promised.

Finally, addressing the intensification of protectionist rhetoric, generated by this year's political campaign, Ambassador Hills warns that "those who advocate closing the U.S. market to balance our trade are courting decline, not growth. More than ever, she concludes, we need the billions of dollars a year of economic stimulus that an open world trading system and access to foreign markets provide."

VI. 2. FOREIGN TRADE BARRIERS TO U.S. EXPORTS
(WDW/14/92 27 MAY 1992)

As mandated by section 1304 of the Omnibus Trade and Competitiveness Act of 1988, on March 30, the Office of the U.S. Trade Representative (USTR) released the 1992 National Trade Estimate Report on Foreign Trade Barriers (NTE). Before 27 April 1990, when the USTR declared a "cease fire," this publication indicated to the countries listed that they were submitted to scrutiny under the much dreaded "super 301" provision of the 1988 Trade Act. Consequently, this year's Report was characterized by Ambassador Carla Hills as only "a useful tool for tracking barriers to U.S. exports and for reporting progress in eliminating them."

Understood as "government-imposed measures and policies that restrict, prevent, or impede the international exchange of goods and services," these barriers are classified into the following eight categories: 1) import policies; 2) standards, testing, labeling, and certification; 3) government procurement; 4) export subsidies; 5) lack of intellectual property protection; 6) services barriers; 7) investment barriers; and 8) barriers that encompass more than one category or that affect a single sector.

The Report describes the barriers existent in "the largest export markets for the United States including 43 nations and two regional trading blocs." This year's list includes, for the first time, seven new countries, from Eastern Europe--Czechoslovakia, Hungary and Poland--and from Latin America--Ecuador, El Salvador, Guatemala and Paraguay. Also, an appendix describes market access barriers in the financial services sector, based on those cases that were brought to the attention of the USTR by the private sector.

The exclusion of countries from the list is "primarily due to the relatively small size of their markets or the absence of major U.S. industry and agriculture trade complaints." However, absentees from the list are specifically cautioned that this "should not be interpreted as implying they are no longer of concern for the United States."

The inclusion of the three Eastern European countries was seen as a signal that they have become stable enough as to be considered "on the same footing as other U.S. trading partners." Among the newly nominated Latin American countries, Ecuador was cited for patent violations, while El Salvador, Guatemala and Paraguay are listed for tolerating piracy of copyrights.

Measured by the length of their citations, Japan appears in the first place with 19 pages, followed by the European Community with 17, Canada with 15, Korea with 11, China with 10, India and Mexico with 9, and Taiwan with 8.

Each country is listed alphabetically and the enumeration of the barriers is preceded by ranking each country according to its relative importance as an export market for the United States. Also mentioned are the magnitude of the U.S. trade deficit or surplus, as well the amount of U.S. imports and exports and of U.S. investment.

For the other six Latin American countries mentioned, not all the citations are negative. For instance, Argentina's "sweeping reform" and the resulting significant reduction in trade barriers are positively mentioned. However, Argentine inadequate patent protection and exclusion of pharmaceutical products is criticized, as well as the lack of explicit protection for computer software. Under services barriers, as last year, Argentina's denial of licenses to foreign courier firms is specifically mentioned.

Brazil is praised for the progress made in the reduction of import licensing, with the notable exception of computer hardware and related digital electronics equipment. However, under criticism comes the lack of patent protection for chemical compounds, foodstuffs and chemical/pharmaceutical substances, as well as services and investment barriers in insurance, petroleum, public utilities, media, real state, shipping, and various "strategic industries."

Chile still exhibits one of the cleanest records, except for the copyright law and certain restrictions to foreign investment, such as the restriction to repatriate invested capital for three years, as well as certain limitations on royalty payments.

Colombia's economic reform program of "apertura" is commended, as well as the significant reductions in tariff levels and the

virtual elimination of import licensing. However, the Report criticizes certain government procurement practices, such as the requirement of government-to-government contracts for major public works projects. Also, it is recalled that intellectual property issues have caused the inclusion of Colombia in the "watch list" under the "special 301" provision of the 1988 Trade Act.

The citation of Mexico includes a brief description of the North American Free Trade Area (NAFTA) negotiations, although this does not preclude criticism of several sectoral rules, such as in energy, electronics, land, mining, pharmaceuticals and telecommunications.

Finally, Venezuela is praised for the substantial liberalization of quantitative restrictions and import levies, although it is still placed in the "special-301 watch list" for intellectual property rights issues.

To conclude, with the exception of the newcomers, the scorecard of the Latin American trading partners, basically, commends the unilateral liberalization that is taking place throughout the region.

VII. INTER-AMERICAN ECONOMIC RELATIONS

VII. 1. MULTILATERAL INVESTMENT FUND (MIF) CREATED (WDW/7/92 4 MARCH 1992)

Out of the three pillars of the Enterprise for the Americas (EAI), launched in June 1990 by President Bush, the investment component was lagging behind. The other two had experienced relative advances, such as the approval of the conversion of PL-480 debt, or the signature of framework agreements on trade with almost all the countries of Latin America and the Caribbean.

On February 11, the creation of the Multilateral Investment Fund (MIF), administered by the Inter-American Development Bank (IDB), signaled a major advance in the field of investment promotion.

The objectives of the MIF are: 1) to encourage the development and implementation of reforms to facilitate increased levels of private investment; 2) to encourage the adoption of development strategies and policies which increase private investment and an expanding private sector; 3) to stimulate micro-enterprises and small businesses; 4) to identify policy reforms to increase investment, alleviate some of the costs of implementing such reforms and broaden the participation of small entrepreneurs; finally, 5) to promote environmentally sound and sustainable economic development.

To carry out these objectives, the operations of the MIF will consist of grants to finance technical assistance and education, as well as loans and equity investments to support micro and small enterprises.

These operations will be managed through three facilities: the technical cooperation facility, the human resources facility and the small enterprise development facility.

The technical cooperation facility will provide grants to governments, privatization agencies, stock exchanges or others, to undertake: country diagnostic studies to identify investment constraints; national country plans for the comprehensive reform of the policy and legal environment for investment; advisory services to carry out such reforms, as well as privatization programs; and assistance to remove impediments to healthy competition, to develop sound prudential safeguards, to expand the capabilities of the

banking sector and capital or commodity markets.

The human resources facility will provide grants to governments and educational institutions to develop the human resource base by means of training of workers and managers in vocational activities and regulatory functions.

The small enterprise development facility will provide financing to micro-enterprises and smaller businesses through grants to non-governmental organizations and domestic financial institutions, including financial intermediaries, to expand the services available to improve financial and business practices; to develop innovative financial services; to prepare business plans, as well as to identify business opportunities and sources of financing.

Also, a Small Enterprise Investment Fund will be established to make loans, equity investments and quasi-equity investments to smaller business and micro-enterprises, as well as to non-governmental organizations and domestic financial institutions.

All developing member countries of the IDB are potentially eligible recipients of financing from the MIF, provided that they are in compliance with an investment sector loan agreement with the IDB, as well as committed to implementing sound macroeconomic policies and investment reforms and in compliance with other relevant international financial institutions.

MIF's decisions will be adopted by weighted voting of three quarters majority of total voting power. The Fund has its own decision making structure, different to the structure that rules the approval of regular Bank operations, with each member having proportional as well as basic votes. One proportional vote corresponds to each one hundred thousand US dollars contributed in convertible currencies, while basic votes result from the equal distribution among all the contributors of twenty percent of the aggregate sum of the basic and the proportional votes of all the members.

The contributions pledged at the time of signing the agreement establishing the MIF amounted to \$1.25 billion and will be made in five equal annual installments, as follows: \$500 million each from Japan and the United States; \$50 million from Spain; \$30 million each from Canada, Germany and Italy; \$20 million each from Argentina, Brazil, Mexico and Venezuela; \$15 million from France; \$5 million each from Chile and Colombia; \$4 million from Portugal; \$3 million from Uruguay; \$1 million from Peru; and \$600,000 each from Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

There were some conspicuous extra-regional absentees from this list, such as the United Kingdom, the Netherlands, Switzerland and

Belgium, as well as the countries of the Caribbean, Bolivia and Ecuador, which pledged to participate in the near future. However, the presence of several extra-regional members of the IDB dispels somewhat the suspicion that the Enterprise of the Americas was aimed at the creation of a closed hemispheric bloc. Also, by contrast to individual country activities, there are no provisions in the articles of agreement for the support of regional projects.

Finally, it will be a while before the MIF can start operations, particularly depending from the speed with which Japan and the United States, the major contributors, will ratify their contributions.

VII. 2. THE BOOM IN LATIN AMERICAN CAPITAL MARKETS
(WDW/17/92 17 JUNE 1992)

Who would have believed, just a few years ago, that the countries of Latin America and the Caribbean, in the nineties, were going to experience plentiful capital inflows. Given the reluctance of commercial banks to lend and the emergence elsewhere of relatively more urgent demands for world savings, no alternative was seen to the reliance on internal savings.

Several recent trends, some of them difficult to quantify, are disproving this dire prediction. First, some of the capital that flew out of the region is returning. Other countries are receiving respectable amounts of transfers from their citizens resident abroad. Finally, most intriguing is the inflow of resources to invest in the incipient capital markets of Latin America and the Caribbean.

According to the Factbook on "emerging stock markets," released by the International Financial Corporation (IFC), among 33 markets monitored, six of the best performers in 1991 were in Latin America. Argentina led the way with an increase of 400 percent in U.S. dollar terms, followed by Colombia (191 percent), Brazil (173 percent), Pakistan (172 percent), Mexico (107 percent), Chile (99 percent), Philippines (59 percent) and Venezuela (48 percent).

The surge in these markets is attributed by the IFC "to favorable foreign and domestic reaction to economic reforms that included fiscal deficit reductions, privatization of state-owned enterprises, reduction of inflation, financial system reform and liberalization of international trade and investment flows, as well as to the fact that Latin American stocks looked relatively cheap at the start of the year."

Another salient feature of 1991 was the intensification of the linkages between these emerging markets and international capital markets, by means of equity and convertible bond issues, particularly those floated by Latin American countries during the second half of the year. The Factbook asserts that "1991 may well be remembered as the year Latin American companies returned to the international capital markets and foreign investors re-discovered the Americas."

Mexico was particularly successful in attracting some of these flows, receiving about \$6 billion in new stock market investment. The "deal of the year" was the sale of stock by the Mexican government of Telefonos de Mexico (TELMEX), for \$2.4 billion, "the largest international equity offering to date by a company headquartered in a developing country." Other Latin American stock markets were also able to attract foreign funds, such as Brazil \$850 million and Argentina close to \$600 million.

Impressive as well, in 1991, was the organization of "at least ten international funds for Latin America as a region," which raised around \$635 million. Additionally, two funds created for Argentina reached \$110 million; three funds for Brazil amounted to \$240 million; and a fund for Chile raised \$50 million. All these activities pushed the amount of "new money dedicated to Latin American stock markets by country funds in 1991 to just over \$1.0 billion."

A brief review of market performance, in 1991, reveals the intensification of transactions in the six most successful Latin American markets mentioned.

Argentina's stock market "had the best year by far among the world's stock markets," registering an all-time record in total value traded of \$4.8 billion, up from \$0.9 billion in 1990. The Brazilian stock market, in 1991, "was the fourth best performer among the world's stock markets," with total value traded more than doubling to \$13.4 billion. Chile came in sixth place, among the twenty emerging markets monitored by the IFC, with total value traded rising to almost \$2 billion, the highest level in fifteen years. Colombia's exchanges responded vigorously to the announcement of new foreign investment regulations, with daily trading in both the Bogota and the Medellin exchanges averaging \$1.65 million, up from \$0.14 million registered during 1990 and in the first eight months of 1991. Mexico ranked fifth in stock market performance in 1991, with the total value traded reaching \$31.7 billion, double the previous record set in 1987. Finally, Venezuela's total trading value rose to \$3.2 billion in 1991 from \$2.2 billion in 1990.

The intensification of two-way capital flows, into and from Latin America, has gained the attention of the powerful Securities

Industry Association (SIA), integrated by more than 600 securities brokerage and investment banking firms in the United States and Canada, which accounts for 90 percent of securities activity in North America.

In the negotiations to create a North American free trade area (NAFTA), the SIA is urging the opening of the Mexican securities markets by requesting the inclusion of nine principles aimed at achieving freedom of capital flows within NAFTA: 1) elimination of discriminatory financial services barriers; 2) national treatment and equality of competitive opportunity; 3) cross-border sale and purchase of financial services in primary and secondary markets; 4) creation of a trilateral panel to review the phase-out of transitional arrangements; 5) coverage of existing and future services or products; 6) transparency of laws and regulations; 7) dispute settlement procedures; 8) long-term harmonization of regulatory policies; and 9) adequate provision for other nations of the Hemisphere to become signatories to the agreement.

VII. 3. LATIN AMERICAN AND CARIBBEAN FINANCE MINISTERS COME TO WASHINGTON (WDW/19/92 1 JULY 1992)

In an unprecedented first, on June 24 and 25, eleven Ministers of Finance from Latin America and the Caribbean--Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, El Salvador, Jamaica, Mexico, Uruguay and Venezuela--came to Washington to meet with their colleague, the Secretary of the Treasury of the United States Nicholas Brady.

The purpose, as expressed in the "statement" issued at the conclusion of the meeting, was "to discuss economic and financial issues of mutual concern." However, it is necessary to try to read between the lines of the statement in order to gain some clarity about what happened within the closed chambers of the meeting.

First of all, the Ministers expressly recognized the qualitative change in Hemispheric relations that has been evolving since the end of the Cold War. Consequently, they "affirmed The New Partnership that exists within the Hemisphere," based on the following four principles: "(1) the mutuality of interests between countries throughout the hemisphere in achieving stronger economies and stable democracies; (2) the importance of sustained economic recovery and adjustment and of a broadening of the benefits of economic growth to all levels of society; (3) the crucial role played by open trade and investment markets and stronger financial markets, and (4) the long-term significance of the Enterprise for the Americas Initiative."

The main highlights of the meeting fall within these four categories, which constitute the pillars of the so-called "New Partnership."

The "mutuality of interests" underlines that the days are gone when the relations between the northern and the southern part of the Hemisphere were perceived as a zero-sum game. Presently, there exists a commitment "to sustaining economic recovery and to moving to free and open markets," as expressed in "the goal of a Hemispheric Free Trade Zone as outlined in the Enterprise Initiative." In this same sense, the Ministers also "stressed the importance of continued progress on negotiations on regional trade matters, such as NAFTA (the North American Free Trade Area) and other initiatives."

Additionally, the Ministers "underscored the importance of a propitious international economic climate and of freer market access to underpin growth in Latin America and the Caribbean." They also "welcomed the progress being made in attracting renewed flows of capital and investment into the region and emphasized the critical role played by financial services and stronger financial markets."

For achieving the "broadening of the benefits of economic growth to all levels of society," the Ministers recognized: first, "the need to broaden participation in sustainable and environmentally sound economic activity;" second, they also "noted the necessity of controlling inflation as a basis for social well-being and good governance;" and third, they "underscored that there is no contradiction between economic stability and growth or between economic growth and social justice."

Finally, the statement concludes making reference to three concrete issues. First, there was agreement that "negotiations on the 8th Replenishment of the resources for the Inter-American Development Bank should begin this autumn and that these should focus on defining a renewed role for the IDB to address the region's changing requirements." This can be seen as an expression of support for the Bank's capital increase, as well as a reference to opening IDB direct lending to the private sector. Second, the Ministers "emphasized the urgency of reaching a successful conclusion of the Uruguay Round." And third, in a concluding reference to the Enterprise of the Americas Initiative, the Ministers "urged timely implementation of all its elements." This last was interpreted as a direct reference to some of the difficulties confronted in the U.S. Congress by the debt and the investment components of the Initiative. Which apparently was one of the main concerns addressed during the meeting, because it all started with an early breakfast with several influential members of the U.S. Congress.

Some interpretations previously offered tried to find the deeper meaning of this unprecedented meeting, as for instance an Op-Ed published in the Journal of Commerce, by Richard Feinberg and Peter Hakim of the Inter-American Dialogue, "a Washington-based policy center." The fact that the meeting was taking place only two weeks before the G-Seven Summit in Munich indicated, for Feinberg and Hakim, that this was the first time Washington was seeking "the advice of Latin America in preparation for a G-7 encounter," as well as that it was seeking to "represent a hemispheric view at a global meeting." Unfortunately, Secretary Brady at the closing press conference dismissed this linkage saying that the meeting with the Latin American Ministers was completely separate of the next G-Seven Summit.

However, beyond these interpretations, most impressive was the way the main newspapers in the United States ignored the meeting. Except for the already mentioned Op-Ed and a brief notice about its conclusion in The Journal of Commerce, there was no coverage of the meeting or of its results in the major U.S. newspapers. This indicates that it was not considered as newsworthy as the presidential campaign, the disintegration of Yugoslavia, or the economic assistance for the former Soviet Union.

VII. 4. PRESIDENT-ELECT CLINTON AND INTER-AMERICAN RELATIONS
(WDW/34/92 18 NOVEMBER 1992)

At the first press conference given by President-elect Clinton in Little Rock, Arkansas, when asked what were his foreign policy priorities, he answered: "a multi-year plan for a defense budget that I think keeps the defense of this country the strongest in the world...; continued efforts to reduce nuclear weapons with Russia and with other superpowers; to stop the proliferation of weapons of mass destruction; keeping the Middle East process on track...; to strengthen global economic growth, in terms of resolving outstanding matters with Mexico, hopefully resolving the outstanding issues in Europe, and proceeding with a cooperative strategy with the other major economic powers to promote global growth."

Some commentators immediately concluded that the lack of direct reference to Latin America or to the Western Hemisphere could be interpreted as an indicator of the loss of salience that Inter-American affairs will experience during the next Administration.

However, as advised by the Minister of Foreign Affairs of Argentina, Guido Di Tella, who visited Washington over the weekend to inform himself about the agenda of the new Administration, it is

still too early to "jump to conclusions."

For one thing, one of the most important signals about the orientation of the new Administration still has to be heard, in the form of the persons that will be appointed to occupy some key positions, such as Assistant Secretary of State for Inter-American Affairs, or Undersecretary of the Treasury for International Affairs.

Second, another very important signal will be the way in which the new Administration will handle the process of approval of the North American Free Trade Agreement (NAFTA). Much depends on the way the NAFTA is approved, because further trade negotiations in the Hemisphere could be based on the so-called "docking clause," by which other countries may accede to the NAFTA (WDW/31/92).

It should be recalled that the supporters of former Governor Clinton are aligned in two different camps concerning the NAFTA (WDW/29/92). On one side are those calling for the renegotiation of the agreement, among them are the powerful unions grouped under the AFL-CIO, as well as some very active environmental groups, such as the Sierra Club. On the other side are those in favor of approving the agreement as it was negotiated, among whom appears prominently the very influential head of the Senate Finance Committee, Senator Lloyd Bentsen (D-Tex.).

There are several indications that this rift still persists, despite the endorsement by then candidate Clinton of the agreement as it was negotiated, if and when it was accompanied by three supplemental agreements and five legislative conditions.

Recently, Bill Cunningham, a lobbyist for the AFL-CIO quoted in The Washington Post, anticipated NAFTA would cause "a blood bath" in Congress, which would bring to an early conclusion the traditional "honeymoon" enjoyed by any incoming Administration. Cunningham said, "bringing this up early has the ability of attenuating whatever honeymoon there will be."

However, on the positive side, the influential House Majority Leader Richard Gephardt (D-Mo.) does not sound as pessimistic. Although quoted as saying he would prefer to renegotiate the NAFTA, Congressman Gephardt "believes his objections could be answered in the way Governor Clinton envisions."

Be it as it may, the last and probably the most decisive signal to be monitored has to do with the reactivation of the U.S. economy. After all, the election was won and lost because of the voters' domestic economic concerns (WDW/33/92). Also, the victorious candidate promised that he would focus on the economy "as a laser beam."

Additionally, in the rather detailed and lengthy statement made during the campaign in Raleigh, North Carolina, supporting the NAFTA without renegotiation but with conditions, then Governor Clinton said: "in the end, whether the NAFTA is a good thing for America is not a question of foreign policy. It is a question of domestic policy."

For all these reasons, an early strong signal in the direction of economic reactivation in the U.S. economy will help sustain the turnaround in consumer confidence that has followed the election. In its turn, a positive economic outlook would restrain some of the protectionist pressures that are present among organized labor, as well as among some environmental organizations, which have found expression in Congress.

In the terms of Professor Abraham Lowenthal, director of the Center of International Studies at the University of Southern California, "even a signed, sealed and delivered North American Free Trade Agreement (NAFTA) wouldn't be sustainable if the U.S. is in a prolonged recession or depression."

In conclusion, Argentina's Foreign Minister Di Tella is right, it is still too early to jump to conclusions about the orientation the Clinton Administration will adopt on Inter-American relations. Three signals still have to be heard: first and foremost, the U.S. economy should be perceived as heading towards reactivation; second, this would augur well for the approval of the NAFTA, as it will be signed by President Bush on December 17; and third, the names of those who will be responsible for Inter-American economic affairs will have to be released.

VIII. THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

VIII. 1. HIGHLIGHTS FROM THE NAFTA
(WDW 4/92 9 SEPTEMBER 1992)

On August 12, 1992, the governments of Canada, Mexico and the United States announced "the completion of negotiations for a North American Free Trade Agreement (NAFTA). The full text of the agreement was released only today because, as the U.S. Trade Representative (USTR), Ambassador Carla Hills declared on August 12, "after we shook hands this morning, we turned to our lawyers who have been working side-by-side with us, and asked them to give the document a legal scrub."

Even so, a description of the proposed agreement was also released in which several highlights appear:

- Tariff elimination: out of 9,000 tariff items, 50% will be eliminated immediately; 15% in five years; and for the rest there are gradations of between six and fifteen years;

- Rules of origin: there are multiple rules of origin; for instance, in automobiles the requirement can go as high as 62.5%; for textiles the rule is "yarn forward," meaning that the good be produced with yarn from a NAFTA member, and even a "fiber forward" for cotton and man made fiber yarns; there is also a "de minimis" provision, by which goods that do not fall under specific rules will be of NAFTA origin when the non-NAFTA materials represent no more than 7% of its total cost;

- Agriculture: separate bilateral regulations on trade between Canada and Mexico and between Mexico and the United States, while the provisions of the Canada-U.S. free trade agreement will continue to apply to agricultural trade between them.

- Financial services: comprising banking, insurance and securities, allows these services providers to establish operations in any NAFTA country, with some exceptions, as in the case of Mexico where this rule is restricted by market share limits during a transition period ending by the year 2000.

- Land transportation: after a transition period of three years, truck operators from the U.S. and Canada will be allowed to make cross-border deliveries in Mexican border states and the U.S. will allow Mexican truck operators to perform the same services; and six years after the signature of the agreement, trucking firms from the three member countries will be allowed to provide services throughout the NAFTA territory.

- Investment: it removes significant barriers by granting

national treatment, ensuring basic protection and providing a mechanism for the settlement of disputes.

- Intellectual property rights: it provides a level of protection that is higher than any other bilateral or multilateral agreement.

- Environment: it sets stringent standards and encourages "upward harmonization," prohibiting the lowering of standards to attract investment.

- Antidumping (AD) and countervailing duties (CVD): a mechanism is established to review final AD and CVD determinations made by the administrative authorities of each member country.

- Dispute settlement procedures: all differences will be settled first by consultations, in which the third country may participate; if these fail, settlement will be sought at ministerial level through good offices, mediation and conciliation; if these fail, panel proceedings may be initiated, although GATT or NAFTA proceedings may be pursued.

- Institutional aspects: besides creating several special committees to deal with the day-to-day functioning of the agreement, such as labelling for textile products, federal automotive standards, agricultural trade, sanitary and phytosanitary measures, standards-related measures, competition laws, "the central institution" created is a trade commission at ministerial level, as well as a secretariat to serve the commission.

- Docking clause: the agreement is open to the accession of other countries.

The next steps in the United States consist in the "fast track" procedures applicable to the approval of those agreements signed before June 1, 1993. Upon completion of the negotiations, the President may give formal notice to the Congress that he intends to sign the agreement and he can proceed with the signature ninety calendar days after giving notice. Any time after signing, the President may submit the legislation necessary to implement the agreement, which has to be approved or rejected with no amendments by the Congress within ninety "session" days. As described by Ambassador Hills, "that works out to about eight months. So we have a good process and a significant time span ahead of us."

Finally, it cannot be forgotten that this is an election year in the United States and the negotiation of the agreement has already become a key campaign issue. On one side, the Republican Administration appears determined to sign the agreement before the election. On the other, the Democrats appear divided. Governor Clinton has said that he wants to wait until the text of the agreement is available. However, Congressman Richard Gephardt (D-Mo.), House Majority Leader, said just days before the conclusion of the negotiations, on 27 July 1992, that the agreement is not acceptable in its current form, since it does not deal adequately with labor and human rights, as well as transborder pollution and

environmental standards. Stay tuned.

VIII. 2. NAFTA INITIALED
(WDW/29/92 14 OCTOBER 1992)

It is an illustration of how free trade within the Western Hemisphere has become a campaign issue in the United States that a formal ceremony was held, in San Antonio, Texas, on October 7, to initialize the text of the North American Free Trade Agreement (NAFTA), already approved on August 12 (WDW/24/92).

The San Antonio ceremony had only symbolic value and was attended by Presidents Bush, Salinas and Prime Minister Mulroney, as well as by the NAFTA negotiators, Ambassador Carla Hills, Secretary Jaime Serra and Minister Michael Wilson.

President Bush notified Congress, on September 18, of his intent to sign the agreement, signaling the beginning of the required 90-day notification period, which means that the formal signature can only take place on or after December 17. Meanwhile, the countdown of the 90 session days, during which Congress has to vote up or down the agreement, will only be triggered until the President transmits to the Congress the necessary implementing legislation, which he can do any time after the signature. In all, these requirements can consume up to eight months, which means that if the ratification of the agreement by the three parties can be expected to happen sometime in 1993, the NAFTA cannot take effect before 1 January 1994.

However, beyond its symbolic value, initialing the NAFTA produced one important result, because it finally brought Governor Clinton to come out openly to endorse the pact, which assured its approval by Congress whoever is elected in November.

The loudest sigh of relief, after the endorsement, came from Mexico, where the outcome of the U.S. presidential election has become, according to The New York Times, "a referendum on the country's economic future." For instance, the next day, the Mexico City stock exchange experienced a leap of 4.65 percent, the second largest gain of the year. Also, President Salinas himself told businessmen in Mexico City, the morning after the endorsement, "there is now broad national consensus that confirms that the free trade agreement is on a very good road toward its legislative stage and its later enactment."

Moreover, the assertion made by Governor Clinton's advisors that it will be easier for a Democratic President to obtain approval for the NAFTA from a Democratic Congress was immediately

confirmed. Representative Robert Matsui (D-Cal.), influential member of the international trade subcommittee, of the House Ways and Means Committee, declared he would support the NAFTA "only under a Clinton Presidency."

Still, some doubts remained. Governor Clinton's endorsement was not perceived as wholehearted as expected. He was seen as "walking down a tightrope," pulled in different directions by conflicting advice coming out from within his own camp. On one side, House majority leader Richard Gephardt (D-Mo.) has openly called for renegotiating the agreement to improve its provisions on labor and the environment. On the other side, Senator Lloyd Bentsen (D-Tex.), a strong candidate for Secretary of the Treasury in a future Clinton Administration, supports the agreement as it has been negotiated.

These positions are also backed by some very powerful supporters. As stated by AFL-CIO President Lane Kirkland, "workers and their unions are convinced that the agreement is seriously flawed and cannot be corrected by any method other than renegotiation." Or by the environmentalists, whose ranks fractured when the powerful National Wildlife Federation came out in support of the environmental components of the agreement.

Such differences among Governor Clinton's supporters explain why it took a while before he presented his proposal for a third way on this polarized issue, which allegedly has been miscast as a simple choice between protectionism and free trade. In Governor Clinton's terms, his position lies between an Administration investing the NAFTA with "all our hopes," and "some Democrats" who fear that "freer trade today always equals exporting jobs and lowering wages."

To avoid these extremes, Governor Clinton endorsed the NAFTA and opposed its renegotiation, if and when three "supplemental agreements" could be signed at the same time. Two of them would create an environmental protection commission and an employment standards commission, with "the power to provide remedies, including money damages, and the legal power to stop pollution," as well as to resolve labor disputes. The third commission would deal with unexpected import surges resulting from free trade. Governor Clinton also said he would pursue five goals in Congress to improve the NAFTA: a comprehensive job training program; new spending on the environment and infrastructure; assistance for farmers hurt by Mexican imports; greater public participation in trade disputes with Mexico; and explicit rules to prevent use of Mexican and Canadian workers to break strikes in the United States.

The reactions did not wait. Ambassador Carla Hills said there was no need for the supplemental pacts, adding that "it's clear he does not know what is in the agreement." Among others, The New York

Times editorialized characterizing Governor Clinton's approach as "free trade, but with time bombs." Finally, President Salinas speaking to reporters before addressing a meeting of the U.S. Business Council described the NAFTA as "a good agreement" and said that before responding, it was better to "wait for the Americans to decide. Wait until after November 3."

VIII. 3. NAFTA: THE INSTITUTIONAL DIMENSION
(WDW/31/92 28 OCTOBER 1992)

Viewed from afar, the institutional structure created by the North American Free Trade Agreement (NAFTA), initialed on October 7 in the presence of the Prime Minister of Canada and the Presidents of Mexico and the United States (WDW/29/92), looks very simple.

Articles 2001 and 2002 of the NAFTA create a free trade commission and a secretariat, respectively. The Commission is formed with "cabinet-level representatives or their designees," to perform the following functions: "a) supervise the implementation of the agreement; b) oversee its further elaboration; c) resolve disputes that may arise regarding its interpretation or application; d) supervise the work of all committees and working groups...; and e) consider any other matter that may affect the operation of this Agreement." The Commission "shall convene at least once a year in regular session...chaired successively by each Party."

The Commission also oversees the functioning of the Secretariat composed of national sections. Each member government will "establish a permanent office of its Section," to perform the following functions: a) provide assistance to the Commission; b) provide administrative assistance to other panels and committees and c) to otherwise facilitate the operation of the Agreement.

Probably one of the most salient traits of this very simple structure is that it follows the precedent set by the other two free trade agreements previously signed by the United States with Israel and Canada, because it relies on a secretariat composed of national sections, instead of creating a permanent bureaucracy to perform the task of servicing the intergovernmental instances.

However, in addition to the system of arbitration panels for the settlement of disputes (Subchapter B, Chapter 20), a closer look at the NAFTA reveals a rather complex structure formed of several committees, panels and advisory boards, charged with the performance of specific tasks mainly through periodic meetings. A brief description of some of these bodies and their mandates illustrates the complexity of this institutional structure. For

instance, the following committees can meet at least annually:

- Trade in Goods (Art. 317): to deal with any matter related to national treatment and market access for goods.
- Worn Clothing (Art. 300-B, Section 9.1): "to assess the potential effects that may result from the elimination of restrictions...on trade in worn clothing and other worn articles."
- Agricultural Trade (Art. 708): to monitor and promote cooperation, by means of at least semi-annual consultations and annual reports to the Commission.
- Sanitary and Phitosanitary Measures (Art. 764): to facilitate the enhancement of food safety and improvement, through technical cooperation and consultations.
- Standards-Related Measures (Art. 913): to monitor implementation and facilitate compatibility through technical advice and consultations on application and enforcement, as well as through specific subcommittees (Art. 913 (5)) on land transportation, telecommunications, automotive, and labeling of textiles and apparel.
- Small Business (Art. 1021): identification of opportunities for training, partnerships, data bases and criteria for eligibility.
- Financial Services (Art. 1414): to implement dispute settlement procedures and to examine technical issues.
- Private Commercial Disputes (Art. 2022 (4)): to provide recommendations to the Commission on the effectiveness of arbitration and other procedures for the resolution of disputes.

Additionally, the following working groups are established:

- Rules of Origin (Art. 513): to monitor implementation by the customs administrations and, through a subgroup (Art. 513 (6)), to agree on uniform interpretations on tariff classification and valuation as well as revisions of the certificate of origin, by meeting at least four times a year.
- Agricultural Subsidies (Art. 706 (6)): to monitor the volume and price of subsidized imports and to agree on the limitation or elimination of export subsidies, by means of semi-annual meetings as well as annual reports to the Commission.
- Agricultural Grading and Marketing Standards (Art. 704.3, Section I and Sect. II) between Mexico and the United States and Mexico and Canada, to review the operation of agreed standards.
- Trade and Competition (Art. 1504): to make recommendations to the Commission on the relationship between competition laws and policies and trade within the area.
- Temporary Entry (Art. 1605): to facilitate temporary entry of business persons and their spouses.

Finally, the Commission is also charged with establishing "a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits" (Art. 101 (f)) of the Agreement. In conjunction with the so-called "docking clause" (Art. 2205), on accession, this means that "any country or group of countries may accede to this Agreement to such terms and conditions as may be agreed between such country or countries and the Commission and following approval in accordance with the applicable approval procedures of each country."

This brief revision of some of the main institutional requirements contained in the NAFTA reveals the complex institutional structure envisaged by the Agreement.

IX. MULTILATERAL FINANCIAL INSTITUTIONS

IX. 1. THE WORLD BANK'S RESEARCH PROGRAM (WDW/16/92 10 JUNE 1992)

During fiscal year 1991, expenditures in research activities at the World Bank amounted to \$22.3 million, to finance 132 staff years, down from \$23.7 million in FY90, with staff time remaining virtually unchanged. These expenditures represented, in FY91, 15.2 percent of all the analytical work carried out by the Bank and accounted for 3.7 percent of the Bank's administrative budget, down from 17.5 percent and 4.3 percent in FY90, respectively. The other analytical activities, not considered research, were economic and sector work, as well as policy analysis, which accounted for 57 and 28 percent, respectively.

By contrast with FY90, when the Annual Research Report was centered on the relation between research and operational activities, the special focus of the FY91 REPORT is on the external impact of these activities, by assessing "the contribution of research to the Bank's intellectual leadership in development."

Some of the indicators that measure the impact of Bank's research include direct use in policy settings, analyzed in several case studies; the utilization of Bank publications for educational purposes; and the citation of Bank's research by other researchers.

For instance, a review of the reading lists of 21 graduate courses in development economics revealed that Bank research products constituted one sixth of the titles recommended. Also, journal articles written by Bank authors are cited in other journal articles from 20 to 40 percent more frequently than the average economics journal article.

Finally, the dissemination of some of the Bank's publications reveals the degree of penetration achieved by research output. The World Development Report comes first, with more than 120,000 copies distributed each year. Other publications appear far behind, such as the World Debt Tables with 11,000 copies. Also, the average distribution of a Bank's book is about 2,500 copies, with some outstanding "best sellers" exceeding 6,000 copies, such as W. Baum's Investing in Development (1985), with more than 20,000 copies, or J. P. Gittinger's Economic Analysis of Agricultural Projects (1982), with more than 15,000 copies.

The Bank's research program, in FY91, was financed from three major sources: first, projects initiated by the different departments amounted to 54 percent; second, the Research Support Budget, a central fund, provided support for projects from both the Bank and the International Finance Corporation (IFC) amounting to 41 percent; finally, Bank managed research projects supported by outside agencies amounted to 5 percent.

The different program objective categories funded and their increasing or decreasing relative participation reveal the substantive research priorities. For instance, adjustment and debt still received the highest but declining share, from 26.6 in FY90 to 24.0 in FY91, followed by private and public sector reform, increasing from 16.1 to 18.1 percent. Also declining was economic management, from 17.6 to 13.7 percent, while human resource development increased from 14.1 to 14.9 percent. Other areas experiencing increases in their relative participation were environment and forestry, from 6.9 to 9.7 percent, as well as poverty reduction, from 10.5 to 11 percent.

Looking ahead, to future research directions for the nineties, the Report identifies three main areas: the "exploration of better means to protect the poorest during periods of economic stagnation and adjustment," as well as the most cost-effective use of reduced public expenditures and the sources of economic growth. Two other issues that will be given priority in the near future, within the Bank's research program, are "the expansion and efficiency of private sector economic activity and the transition from socialist to competitive economies in different regions."

The Report also reveals the results of an evaluation, conducted in FY91, of 49 completed research projects funded by the Research Support Budget. First, the evaluators agreed that "the Bank is best suited to carry out applied and empirically based research that draws on the Bank's unique access to data bases, local researchers, and local government cooperation."

The efforts to disseminate these research results consist mainly of the publication of two journals, distributed to a list that includes 90 percent subscribers from developing countries, 12,000 copies of the Economic Review and 5,000 copies of the Research Observer.

Additionally, several links were established with outside researchers. For instance, in FY91, the Bank used about 45 staff years of consultant time on research, while 524 seminars were held at the Bank, one third of which were research related and given by experts from outside. Also, 13 "eminent scholars" visited the Bank under the Visiting Research Fellows Program and the execution of the research program led to the establishment of linkages with 75 institutes or government agencies in developing countries.

Another outreach activity consists of the Annual Bank Conference on Development Economics (ABCDE). The third of these gatherings was held in Washington D.C., in April 1991, covering four topics: urbanization, transition in socialist economies, governance and development, and military expenditures and development.

Finally, the cumulative number of working papers released has exceeded 700, with 265 issued during FY91, while Bank researchers published 36 books and 70 articles in professional journals.

IX. 2. THE IMF'S ANNUAL REPORT
(WDW/25/92 16 SEPTEMBER 1992)

Every year, before the annual meetings of the Board of Governors, the Executive Board releases the Annual Report reviewing the performance of the International Monetary Fund (IMF), during the financial year ending on April 30.

This year, the first part of the Report contains a brief description of the principal developments in the world economy in 1991 and early 1992, based on the World Economic Outlook (WEO), originally released by the staff in April 1992 (WDW/13/92). The second part includes a review of the Fund's policies and activities, under the following headings: surveillance; financial support for members' policies; technical assistance; trade developments; and financial operations.

The surveillance of the members' policies and performance is carried out by means of yearly individual consultations, as well as multilaterally, through the Board's discussions of the world economic outlook, twice a year.

Some of the most important conclusions drawn by the Board from these surveillance activities were: first, there is concern over the sluggishness exhibited by the economies of the industrialized countries; second, by contrast, in the developing countries adjustment and reform programs have contributed to a stronger economic performance and outlook; third, the transition in the former centrally planned economies needs a comprehensive approach to structural reform, together with a decisive effort at macroeconomic stabilization. Finally, on the debt strategy, the Board underlined the evolution toward voluntary, market-based reduction of commercial bank debt, as well as the increased concessional and nonconcessional relief by official creditors. However, it was also recognized that progress in the reduction of the debt of low-income countries has been "disappointingly slow," especially among the countries of Sub-Saharan Africa.

The overall financial support committed by the Fund for member countries rose sharply during 1991/92, with new commitments, in the form of 29 arrangements, reaching SDR 8.7 billion, compared with SDR 5.6 billion in 1990/91. Three large borrowers--Argentina, Brazil and India--accounted for more than two thirds of the total, with SDR 6.1 billion, by contrast with last year, when two thirds of total commitments were for Eastern European countries. In all, nine of these new arrangements were with Western Hemisphere countries: Argentina, Barbados, Brazil, Dominican Republic, Ecuador, El Salvador, Jamaica, Nicaragua and Panama.

A review of the conditionality applied in stand-by and extended arrangements, carried out by the Board in July 1992, revealed that the economic performance of the participating countries in the 44 programs reviewed, covering 1985-88, was better than under similar programs during the early 1980s. Consequently, no major operational changes were made to the existent guidelines for conditionality, which the Board estimated continue providing an appropriate basis for the use of IMF resources.

The Board also reviewed the operations of the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF). On the basis of this review, eligibility to use the ESAF was extended to 11 additional countries, among which the Dominican Republic, Honduras and Nicaragua from the Western Hemisphere.

In October 1991, the Board carried out an extraordinary discussion about military expenditures, estimated to represent currently around 5 percent of world GDP. In this regard, "most Directors indicated that, as military expenditure can have an important bearing on a member's fiscal policy and external position, information about such expenditure may be necessary to permit a full and internally consistent assessment of the member's economic position and policies." Even so, "directors further agreed that data on military expenditures should not serve as a basis for establishing performance criteria or similar conditions associated with Fund-supported programs."

The Fund's financial operations in 1991-92 included: 1) purchases (drawings) decreased to SDR 5.3 billion from SDR 6.2 billion; 2) repurchases (repayments) also declined to SDR 4.8 billion from SDR 5.4 billion; 3) there was a net transfer of resources to the member countries of SDR 0.5 billion, almost the same as last year's of SDR 0.6 billion; 4) overdue financial obligations (arrears) rose slightly to SDR 3.5 billion, with Peru as the only country in the Western Hemisphere with arrears amounting to SDR 622.8 million, since Panama cleared its overdue obligations in February 1992; 5) finally, for the performance of these duties the Fund's regular staff increased from 1,763 persons from 104 countries in 1990-91 to 1861 persons from 107 countries in

1991-92, with the total administrative budget increasing from US \$278 million in the previous financial year to US \$338 million.

To conclude, the salient event of this year was the Fund's movement towards universal membership. By the end of July 1992, nine states of the former Soviet Union had signed the Articles of Agreement--Armenia, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania and Russia. Also, the Republic of the Marshall Islands and Switzerland became members in May 1992. While the former Yugoslav republics of Croatia, Slovenia and Bosnia-Herzegovina, as well as the Federated States of Micronesia and even the Republic of San Marino have applied for membership. Thus, a truly global monetary system is coming into existence.

IX. 3. THE WORLD BANK'S ANNUAL REPORT
(WDW/27/92 30 SEPTEMBER 1992)

The Annual Report of the World Bank, for the fiscal year (FY) covering from 1 July 1991 to 30 June 1992, contains the following seven sections: 1) the Executive Board's activities; 2) a global perspective of the economic scene; 3) the Bank's operations in FY 92; 4) the Bank's finances; 5) the activities of the members 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 special segment dedicated to Latin America and the Caribbean; and 7) a summary of the projects approved during FY 92.

With the approval by the Board of Governors, last year, of the resolution admitting for membership the fifteen former republics of the Soviet Union, the "World Bank moved closer to the realization of a dream shared forty-eight years ago by the participants in the June 1944 Bretton Woods Conference--of an institution that would promote the economic development of the unified family of nations."

Still, 1991 was a year when "international conditions for growth in developing countries deteriorated," with the economies of low- and middle-income countries "virtually stagnated," while the seven most industrialized countries "experienced a major slowdown in GDP growth."

Total lending commitments by the World Bank Group in FY 92 amounted to \$21.7 billion, of which \$15.1 billion from the Bank and \$6.5 billion from the International Development Agency (IDA), a decrease of \$1.2 billion in commitments by the Bank and an increase of \$256 million from IDA, compared to FY 91. Net disbursements by the Bank also declined in FY 92 to \$1.8 billion, down by \$272

million, while IDA's net disbursements increased \$167 million, to \$4.4 billion.

By sectors, structural and sectoral adjustment lending operations amounted to \$5.8 billion in FY 92, accounting for 27 percent of total WB/IDA commitments, a slight increase from FY 91 when these operations reached \$5.6 billion, or 25 percent of total commitments. The largest sector was lending for agriculture and rural development, totalling \$3.9 billion, or almost 18 percent of total commitments.

The segment dedicated to Latin America and the Caribbean registers that, by the end of FY 92, almost all the countries of the region had adopted programs of structural adjustment, with "these reforms beginning to bear fruit," since in 1991, "total output in Latin America grew by about 3.0 percent, marking the first time in four years that per capita income grew in real terms." However, the Report also recognizes that "per capita income still remains below the level attained in 1979."

Other positive signs noted in Latin America and the Caribbean are the positive response by the private sector to greater economic stability, since "domestic investment in the region rose by about 4 percent in 1991; and the renewed access of many countries to international capital markets, amounting to \$18 billion, as well as the return of flight capital.

Also positively noted are the policy adjustments comprising the reduction of the maximum tariff in Argentina to 22 percent; the elimination of almost all non-tariff barriers in Brazil, as well as the abolition of exchange controls in Jamaica, and tax reforms in El Salvador and Guyana.

In FY 92 Bank activities in Latin America and the Caribbean comprised: 1) total new loan commitments, involving forty-five operations, increased slightly from \$5.2 billion in FY 91 to \$5.6 billion; 2) gross disbursements of \$3.9 billion were slightly less than the \$4.3 billion of FY 91, while repayments of \$4.2 billion yielded negative net disbursements of \$351 million; 3) adjustment lending amounted to \$1.7 billion, which represented the same 30 percent of FY 91, with \$1 billion, more than half going to Peru; 4) cofinancing increased to \$3.0 billion, from \$1.7 billion in FY 91, with the Inter-American Development Bank (IDB) remaining, for the second year, the main source of cofinancing resources, in fourteen operations amounting to \$2 billion, while Japan remained the main source of bilateral cofinancing, providing \$775 million in seven operations.

Finally, with a budget for FY 92 of \$1.12 billion to be increased in FY 93 to \$1.25 billion and regular staff of 6,046, the new Bank President Lewis Preston reinforced the commitment of the

Bank to the reduction of poverty, defining it as "the overarching objective" of the institution. This statement was contained in the preface of a Handbook for poverty reduction issued, with an operational directive, to provide guidance to task managers and guidelines for operations. Also, the publication of the last World Development Report, dedicated to the environment and development, added to the preparation of private sector assessments, has completed the articulation of the strategies which will shape the performance of the Bank in the years ahead.

The Bank is "now placing greater attention on concrete issues of implementation," with its lending activities "oriented toward the Bank's primary missions: poverty reduction, sustainable growth, and an active response to environmental concerns." The intention is to pursue "these strategies across all relevant programs, rather than through narrowly focused special programs." Thus, "the pursuit of these objectives and strategies does not neatly translate into trends for lending to individual sectors."

IX. 4. THE IMF-WORLD BANK SPRING MEETINGS
(WDW/12/92 13 MAY 1991)

This year's Bank-Fund spring meetings, held in Washington from 25 to 28 april, were dominated by two issues: first, the open eruption of differences among the industrialized countries concerning the coordination of their economic policies and second, the admission as full members of the Fund and the Bank of the former Soviet republics and the consequent approval of a substantial package of economic assistance for all of them. The degree of consensus revealed by the industrialized countries in dealing with the former Soviet Republics contrasted with the skirmishes between the United States with Germany, as well as with Japan.

The admission of the 15 former Soviet Republics to the Fund and the Bank had been well prepared and it was signaled by a meeting of a delegation from the Russian Federation with the G-Seven, which resulted in the issuance of a separate "statement," in addition to the traditional communique, on the package of economic assistance.

The delegation of the Russian Federation was presided by the Russian Deputy Prime Minister Yegor Gaidar, described in the press as "a 35-year-old academic with little experience in management before his appointment late last year," who was characterized by U.S. Secretary of the Treasury Nicholas Brady as "an enormously convincing person."

He must have been very persuasive, because the statement by the G-Seven listed the basic ingredients of a comprehensive stabilization and reform program, comprising the reduction of the budget deficit, curbing monetary growth to bring inflation under control, a unified and market-determined exchange rate, as well as the legal framework for a market economy and the reform of agriculture and energy sectors.

To support these profound transformations, the G-Seven approved the \$24 billion aid package to Russia, announced on April 1 by Chancellor Kohl and President Bush in Washington. Also, they supported the activation of the General Agreements to Borrow (GAB), ratified the next day by the G-Ten, to finance a \$6 billion currency stabilization fund for the ruble. Additionally, the Managing Director of the IMF Michel Camdessus estimated that around \$20 billion were required by the other 14 republics.

Thus, this year's spring meetings will be recorded as those during which the Bretton Woods institutions, "at last" became universal, thereby accomplishing, in Mr. Camdessus' terms, "something that we have looked forward to since our establishment." Thus, if the 4.76 percentage of total IMF quotas granted to all these republics is indicative of their relative weight in the world economy, altogether they are placed somewhere between Canada and Saudi Arabia.

The coordination of economic policies among the industrialized countries exhibited less consensus. It all became public with a statement by U.S. Treasury Under Secretary David Mulford urging Germany to lower its budget deficit. The angry response by Germany's State Secretary of Finance Horst Koehler was that "the principle of G-7 cooperation rests on the principle that every country should keep its own house in order."

This led to the recognition in the communique of the G-Seven of four different situations concerning the need to reduce fiscal deficits, indicating the lack of consensus on this issue. To mention them briefly: 1) countries with large fiscal deficits, relatively high inflation, excessive wage developments and tight monetary policy are advised "to follow a balanced policy approach to facilitate improved growth." 2) Other countries with large deficits that have experienced weak growth "should avoid actions that would jeopardize medium term efforts to consolidate budget positions." 3) Still others, where fiscal imbalances have been contained and where recession has been avoided, "appropriate measures should be pursued to enhance medium term growth prospects while maintaining public expenditures under control." 4) Finally, in what was perceived as a direct reference to Japan, "in those countries with large surpluses and declining growth, policy makers should be mindful of the possibilities of strengthening domestic demand through appropriate measures."

Japan also came under the limelight when the G-Seven reviewed developments in foreign exchange markets, because in the only reference to an individual currency, the Ministers and Governors declared that "the decline of the yen since their last meeting was not contributing to the adjustment process." This was interpreted as a "trade-off" in exchange for the above mentioned fiscal license, interpreted in Japan as a signal that a supplementary budget will be drafted before the beginning of the summer.

The communiqués issued by the other meetings --the G-Ten, the Interim and Development Committees-- basically reflected the terms of the statement issued by the G-Seven. Even the communiqué of the G-24 developing countries was celebrated by its lack of confrontational language. However, in a subdued manner, the G-24 Ministers, commenting on the admission of the former Soviet Republics, "in the light of the growing membership...re-emphasized...the need to preserve the true multilateral character of the Bretton Woods institutions, and restated their call that both the geographical representation and voting power of the present developing member countries in the Fund and the Bank should at least be preserved, if not increased."

IX. 5. THE IMF-WORLD BANK ANNUAL MEETINGS
(WDW/28/92 7 OCTOBER 1992)

These were supposed to be the annual meetings where the Bretton Woods institutions were going to celebrate the accomplishment of their universalization and where "the great transformation" of the former socialist countries would be reviewed and supported. After all, even the tiny enclave of San Marino and reticent Switzerland, as well as Azerbaijan, Uzbekistan, Turkmenistan and the Marshall Islands had all decided to join, bringing the number of members of the Fund to 173, the highest ever.

However, just when the financial world was going through the preparatory motions of its annual ritual, celebrating the slight but significant reduction in interest rates finally adopted the week before by the mighty Bundesbank, the reality of the trillion dollar daily currency market dawned on the annual meetings. Just a few days before, the pound sterling and the Italian lira, closely followed by the peseta, broke through the narrow band established within the European Exchange Rate Mechanism (ERM). Thus, these currencies became helpless victims of intense waves of speculative trading, allowed by central bankers who knew better than to oppose such mighty forces.

Evidence shows that currency trading has grown spectacularly in the last three years. London remains the largest currency market, with daily trading of more than \$300 million, followed by New York's handling of almost \$200 million daily and Tokyo's almost \$130 million per day. Added to the figures transacted in Frankfurt and Hong Kong, this amounts in a day to roughly the equivalent of the world's foreign exchange reserves, which in June of this year amounted to \$1,035 billion. No wonder the central banks avoided the confrontation, though they quit only after the Bundesbank had spent around \$40 billion trying to protect the European ERM.

Amidst such turmoil, an effort was made during the Bank-Fund annual meetings, held from 18 to 24 September in Washington, to address other issues, such as the situation in Eastern Europe and the former Soviet Union, as well as some of the concerns of the developing countries.

For instance, in a statement of three paragraphs, the Group of Seven (G-7) reaffirmed the objectives approved at the Munich Summit (WDW/21/92) of strengthening world growth "without rekindling inflation." The G-7 also noted several measures adopted "to reinforce economic recovery," particularly "interest rate reductions in a number of countries, as well as the recent announcement of the Japanese stimulus package." Finally, the G-7 "expressed concern about the recent volatility in world financial markets," and the Ministers and Governors met with the delegation of the Russian Federation to discuss its reform program.

Among other issues addressed, the debt of developing countries was mentioned in the communique of the Development Committee, chaired for the last time by the Minister of Finance of Chile upon the expiration of his two year mandate. It "welcomed the progress in the international debt strategy" and registered the fact that debt reduction arrangements have been reached with 12 countries, including those by Argentina and Brazil with their major creditor banks, which in all "account for more than 90 percent of the commercial bank debt of the major debtor nations."

Yet, the conclusion was drawn at the end of the meetings by the President of the World Bank that one of the main casualties of the belt-tightening prevailing in the industrialized countries would be future development aid flows.

At the closing ceremonies, President Preston said "donor budgets are tight and events of the past week have created further uncertainties and pressures." Also, in direct reference to the recently announced reduction of ten percent in the aid budget of Sweden, Mr. Preston said "after the events of the last week, we have seen traditionally generous donors cut back on their overseas development aid."

The managing director of the World Bank, Ernest Stern, said "it's a sad situation, donors are turning inward," since the industrialized countries are "not dealing with their own structural problems...they are always in a fiscal bind. And aid is a casualty of the Cold War. The lack of ideological competition is reducing enthusiasm for aid."

Moreover, Mr. Stern recognized that the annual meetings were centered on the European currency crisis. "Nobody talked about anything else," he said, "other important subjects were kind of shut out. The former Soviet Union disappeared from everybody's radar screen, which was a dash of cold water," while "the problems of development didn't get much attention, which was a pity."

In these conditions, "sounding despondent and at times angry" according to The Financial Times, Mr. Preston concluded, "the international community must not turn its back on the poor...They need help. It's important that they not be expected to bear the burden of adjustment in the rich countries as well as on their own." He concluded "there is no more important task facing humanity than poverty reduction and sustainable development."

By contrast, Secretary of the Treasury Nicholas Brady in his concluding remarks proposed that the G-10 should carry out a study on world capital movements, which "have grown dramatically in size and complexity." He added, "there is a clear need for a better understanding of the changing face of financial markets and the implications for the international monetary system."



