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EUROPE AND LATIN AMERICA IN THE WORLD CRISIS

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"Dead ends force one to look
again to retrace one's steps"
Y. Blumenfeld.

A profound crisis has shaken the world economy since the beginning of the 1970s; even the recent improvements in the situation of a few countries --by some too eagerly viewed as the light at the end of the tunnel-- stress the extent of the crisis and the basic structural imbalances that characterize the world economy. As the world economy is not experiencing merely a cyclical downturn, to return it to a stable and competitive expansion of its various parts will require comprehensive restructuring of the overall process of capital accumulation and redistribution of the relative roles each part will have to play in the new socio-economic order.

A crisis like the present one has no single cause; therefore, one should not be surprised by the endless discussions concerning the relevance and appropriateness of the various causes proposed and the respective packages of remedies advanced. Interventions by governments authorities as well as by international agencies are meant to remove or limit the negative effects of these causes and indirectly to modify the terms of reference or the framework within which private economic actors, including the multinationals, operate. This poses the difficult problem of co-ordinating national policies, though this problem would not be so intractable if growing interdependence were less unbalanced than is admitted by all those that utilize it to stress the mutuality of interests prevailing within the world economy, and to minimize the need for structural changes, at both the international and subnational levels.

This paper is organized in four parts dealing with the causes of the crisis, its effects on Europe and Latin America, and finally with Europe-Latin American relationships.

1.0 The first of the causes of the present world crisis to be analysed is that relating to the fact that the socio-economic development model characterized by "more-of-the-same" type of growth is no longer relevant;^{1/} a model that had remained viable until it was applied within a limited area of the world economic system. The strains generated by its adoption by an increasing number of countries made themselves felt in the generalized inflation which exploded in the 1970s and which remains latent even though the drastic recession imposed on the world economy has cooled it down. In other words, private and public consumption expectations have tended to rise faster than production possibilities that are constrained by the simple fact that many natural resources are non-renewable and exhaustible. Although technological progress has continuously extended the limits of their availability, these limits nevertheless exist and to stretch them further, or to find alternative sources, requires huge and continual investment which in turn gets squeezed by the pressing demand for consumption and by declining profitability.^{2/}

The crisis of the welfare State, ^{3/}or better its extension outside the developed world, has called into question the Keynesian theory on which it was based since it has become increasingly apparent that the State cannot indefinitely

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sustain the aggregate demand without jeopardizing economic and monetary stability. At the same time, the State's ability to cope has been strongly reduced by the growing influence of all kinds of internal groups which often pursue conflicting demands and are guided by short-term perspectives. The ever-changing politics of "participation" impeded firm and stable policy choices, thus reducing the grounds for co-operation among developed countries (DCs) and even more between DCs and developing countries (LDCs), as indicated by the "crisis of development" and the "crisis of foreign assistance" analysed at length in the literature of the 1970s.

1.1 Growing interdependence has enhanced the transmission of socio-economic-cultural stimuli across frontiers; in the DC-LDC context, however, the negative effects have on balance dominated, so that the reiterated assertions that the North's recovery is a necessary precondition for that of the South require qualification. In fact, the present recovery of the United States economy is having some positive effects mainly on other DCs; for the LDCs the most visible impact is that of rising interest rates. Although interdependence "leapt out of the textbooks and ... arrived on ministers" desks everywhere;^{4/} it has remained "unbalanced".^{5/} Even when the concept has been questioned, it has been stressed that "in spite of the increase in protectionist measures, the world economy has remained highly integrated, and indeed, in one respect at least, this very turbulence has led to greater integration. This is the rapid growth of international credit and capital markets in the 1970s".^{6/}

The close interdependence of the world economy is frequently used: i) to maintain that the economic recovery of DCs is crucial to the solution of international problems and that the development of LDCs depends on that recovery; then, by emphasizing the latter, ii) to suggest that the current crisis is essentially cyclical and consequently no basic structural reform of domestic or international relations is needed; finally, iii) to minimize, if not to ignore, "the potential contribution of a substantial strengthening of LDC economies, with a corresponding increase in their purchasing power, to the current economic problems of developed countries".^{7/}

The reduction of domestic economic sovereignty which interdependence by definition entails,^{8/} has helped to limit the role of the State and made it more difficult to predict the effects of national policies. Considering the traditional weaknesses of most LDCs, the dangers posed by growing interdependence must not be overlooked. IMF calculations show that a one percentage point annual decline of DCs' GNP estimated growth rate until 1987 would increase the projected current account deficit of non-oil-exporting LDCs from the currently projected US\$ 60 billion to US\$ 80 billion. Yet there is a rather puzzling aspect of interdependence: if DCs were hit by a recession, protectionist pressure would grow and LDCs' exports to them would tend to decline; if, on the other hand, DCs enjoyed fast economic recovery, interest rates would rise and LDCs debt servicing become more burdensome. Yet LDCs are not the only ones frequently to find themselves at the receiving end of a rapid transmission of disruption and instability caused by economic phenomena initiated somewhere else and over which they have little or no control. The best example of this immediate one-way transmission is that of exchange rate movements. Furthermore, the lengthy and painful process of adjustment to such influences can be voided at any time by

/another wave

another wave of externally-generated changes. Anyway, it is "only in time of crisis..." that "the conflicting requirements of national and collective purpose usually become obvious".^{9/}

That interdependence also has its positive aspects is demonstrated by the successful fight against inflation resulting from the synchronized policy response by major OECD countries after the second oil shock --a response which caused yet a severe and long recession.

1.2 The serious attempt by the United States to end the multipolar world system which had emerged in the 1960s and to re-establish its economic and military pre-eminence has resulted in that Government's growing deficit in financing its rearmament and therefore in higher interest rates which slow down productive investment and cause capital inflows to the United States. If these inflows help to finance some of the United States new investment,^{10/} they reduce the chances of recovery in the countries that provide them, again demonstrating the one-sided dimension of interdependence.^{11/}

The appreciation of the dollar is another aspect of a stronger United States economy which, although it is costing overseas markets for United States manufactures, is also helping to keep inflation down in the United States. However, as a large share of world trade and important commodities are priced in dollars, an increase of the dollar value causes their relative cost for the importers to rise and therefore an inflationary pressure is transmitted to the world economy.^{12/} Countries then face the alternative, in the words of the Bank of England, "of accepting either high interest rate themselves, with harmful consequences for economic growth, or a fall in their exchange rates with harmful effects on inflation". Fortunately for the DCs, the prices of most primary commodities, including oil, have kept declining, thus limiting the harmful effect of United States policies on industrial countries.

Internal tax cuts in the United States (in other words, the government deficit) stimulate a sharp recovery largely at the expense of most LDCs and Europe. In this way other nations help to finance the rearmament of the United States via its trade deficit and capital inflow;^{13/} the other contributors are the American poor. The Summer 1984 removal of a 30% withholding tax on interest and dividend income earned by foreign investors in the United States is expected to attract between US\$ 15 billion and US\$ 30 billion from abroad during 1984. This money, by being invested in United States Treasury securities, will strengthen the dollar in relation to other currencies, thus making the servicing of foreign debts even more difficult as debtors will face upward pressure on their capital markets' interest rates to offset the flight of money to the United States and downward pressure on their commodity prices.

It is merely its position within the world system and its regained strength which allows the United States, and only the United States, effectively to continue, for the time being at least, a Keynesian expansionary fiscal policy --private consumption and residential construction have been the major sources of its recent recovery--^{14/} with a restrictive monetary stance, although the longer-run viability of such an approach is doubtful, especially if industrial investments

/and the

and the export sector do not come alive. Data relative to the second quarter of 1984 show that business investment, as a proportion of GNP, was still slightly lower than the 11.7% level reached four years earlier.

1.3 As a relevant aspect of the United States attempt to re-establish its pre-eminence that had been eroded by the alleged loss of even military parity with the Eastern bloc, detente had to be replaced by confrontation. The resulting intra-European tensions have generated larger economic losses for Western Europe by curtailing its access to Eastern markets and therefore making its recovery even more difficult. Furthermore, the confrontational attitude of the United States has divided Western Europe and has introduced greater uncertainties in its economic calculations, thus reducing its ability to act in a co-ordinated and coherent manner. The present "crisis of Europe" has some roots in this unilateral United States decision to change its policy vis-à-vis the Eastern bloc.

1.4 Another important source of the crisis is to be found in the nature and direction of technological progress strongly influenced by the structure and evolution of the United States socio-economic system. For our purpose, the impact of technological progress in the DCs has contributed to the following aspects:

i) The well-known phenomenon of declining employment in the manufacturing sector, a tendency which has greatly contributed to post-WWII income redistribution in favour of labour in general and unskilled labour in particular. This redistribution has favoured the rapid increase of labour-saving rather than capacity-expanding investment while lowering the propensity to save.

ii) The increasing incidence of services in the overall final demand, a sector characterized by lower productivity and higher levels of capital expenditure per unit of output. Because of the combination of i) and ii), unemployment is difficult to eliminate and wages must decline; this is also necessary to re-establish higher levels of profitability in order to obtain necessary investment.

iii) The fast pace of product and production innovations has made convenient the relocation of more labour-intensive and polluting manufactures to LDCs, often on the initiative and/or under the control of some DC producers. Yet by the time LDC exports of the products started to penetrate DC domestic markets, mainly in the late 1970s, the latter's high unemployment rates caused new protectionist measures to be promulgated by DC governments in defence of the threatened domestic sectors.

iv) More recently, further technological developments have made it possible for some DCs to recapture formerly labour-intensive manufactures whose production had been transferred to LDCs in the 1960s and early 1970s.

v) The early decomposition of complex production processes into elementary parts or parceling, and declining transport, communication and data processing costs, have greatly contributed to the rapid expansion of internalization, i.e., of multinational corporations' world-wide integrated activities which enhance interdependence but also tend to reduce the autonomy of national authorities. Furthermore, the market internationalization fostered by technological and organizational progress definitely undermines the price mechanism as the main factor in the allocation of resources.

/Yet technological

Yet technological and organizational progress has been crucially important in creating, i.e., rationalizing, a) "a world wide industrial reserve army ... along a world market for labour-power"; and b) "a world market for production sites ... in which the traditional industrial countries and the developing countries are forced to compete against each other to retain or attract world market oriented manufacturing industry".^{15/} Both developments contributed to that reorganization of world-wide production and distribution which, by generating a complex system of interrelationships, often referred to as internationalization and interdependence, is shaping the world order.

1.5 The process of reorganization mentioned above is somehow facilitated by the present international monetary system, or what goes under that name, and several international agencies. Yet its failure at the turn of the 1970s and its subsequent instability, is the last cause of the world crisis to be analysed here. The shift to fluctuating exchange rates, the emergence of large private liquid assets and the lack of co-ordination of national monetary policies, have all increased the instability of the international monetary system and encouraged speculative behaviour in the currency markets. Although it does not seem that this instability has substantially affected international trade flows, as had been expected, large-scale disequilibria in trade and payments continue to characterize the world economy, with disruptive consequences on economic growth, investment and unemployment in both DCs and LDCs.

Placed at the centre of the monetary system created at Bretton Woods, United States inability to adjust its exchange rate meant that the discipline of the balance of payments which has so often been forced on other countries was ineffective on the United States economy. Other nations were left with the alternatives of accumulating dollars in their reserves or of accepting the United States rate of inflation, i.e., to inflate sufficiently to allow American producers to earn back those dollars. In effect, this meant an "implicit underwriting of American investment in Europe and of the large increase in overseas expenditures associated with the Vietnam War".^{16/}

To halt the erosion of its economic position and defend its reserves, the United States suspended the dollar convertibility in 1971 and shifted to the floating exchange rate.^{17/} In principle, the latter should allow countries varying inflation rates, but in fact it has enabled "American producers to expand at the expense of others", and the United States to retain the seignorage over the supply of the instrument for international payments.^{18/}

If, under the convertible dollar standard, the United States had earlier been able to supply the world with a common good, namely economic stability, the reduction of its commercial pre-eminence and the resulting commercial deficit not only curtailed United States ability to provide that common good, but made it the direct cause of troubled international financial relations which, in turn, generated economic imbalances and world stagnation. Free of any external constraint, the United States started to reflate at the beginning of the 1970s, thus contributing to the first acceleration of the inflationary process at home and abroad. The subsequent devaluation of the dollar helped to contain the United States commercial imbalance and to eliminate any potential monetary role of gold:

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in the late 1960s the United States had accepted the creation of SDRs only to prevent sufficient support being given to the French proposal for the rehabilitation of the role of gold.

More recently, the higher interest rates applied by the Federal Reserve Banks have enhanced United States ability to obtain resources from the world economy but, at the same time, by making the recovery of most DCs increasingly difficult, have perpetuated that economy's instability. Failing to ensure stability of the world economy and so to justify United States seignorage,^{19/} this common good is increasingly rephrased in terms of defense. The Cold War has already proved a very useful instrument with which to establish United States hegemony; it might now again be useful to regain that position.

To sum up, understanding of the present international crisis seems to rest on two main elements.

In the short run, DCs including the United States, which face persistent balance-of-payments deficits and attempt to limit their imports, cause a lowering of their own income as well as that of the rest of the world. Contrary to what happened in the 1930s, however, the United States can easily finance its deficit with dollars while some LDCs have had access to the private financial markets. The financial constraint has therefore burdened European economies most of all. Of course, world demand could be sustained by expanding official international liquidity: but the sources for the creation of that liquidity (SDRs, enlargement of IMF quotas, etc.) are controlled by the United States,^{20/} which is not necessarily interested in halting a crisis of which it is not only the principal cause but also the main beneficiary.

Finally, there is the problem of LDC indebtedness, i.e., their inherent inability to pay due interest, to say nothing of repaying the principal (see section 3.2). If something drastic is not done soon to resolve this situation, the whole international monetary system as we know it could collapse.

2.0 Among the DCs, Europe is the area that has fared most badly under the present crisis.^{21/} This has been due to its socio-economic structure, its persistent and (since 1973) growing disunity, its specific role in the international division of labour, and its position in the world economic system including its relationship with both the LDCs and the Eastern bloc.

As was stated in the Albert-Ball report to the European Parliament in 1983, in the early 1970s Western Europe found itself confronted with three challenges: inflation, the oil crisis and the growing competitiveness of Japan's and the Newly Industrializing Countries' (NICs) manufactures, to which Europe reacted by reducing the percentage share of investment in GNP and increasing that of total consumption between 1973 and 1983. Considering that during the same period real wages in Europe grew at 2.5% per annum,^{22/} while they stagnated in the United States and rose less than the GNP rate in Japan, and that taxes and related charges added to salaries were the highest in the world, it is not surprising that Europe lost three million jobs while the United States created 15 million. In 1984 alone three million jobs have been created in the United States, but weekly earnings in

/real terms

real terms rose only by 1.8% from May 1982 to May 1984. Furthermore, in 1980 net profits (over capital) of non-oil manufacturing industries were 11.5% for American companies; 13.8% for Japanese, and a negative 0.1% for European companies, forcing down investment to about 3% in the early 1980s. The result is that:

i) Only a few of the EEC countries have been able to reduce their rates of inflation to levels comparable with those of the United States and Japan.

ii) Unemployment has increased 2.5 times more than in the United States and there is no hope that this can seriously be reduced in the foreseeable future. In fact, the latest estimates put the Six's average unemployment rate of the work force at 11.2% for 1983-1990 (ranging from 19.1% for Belgium to 8.5% for West Germany), almost twice that for 1975-1983, i.e., 6.8%.^{23/} For all Europe, official unemployment presently stands at 19 million and is still rising, while for all OECD countries it totals 35 million.

iii) Investments declined from an average percentage growth rate of 5.7% annually to 1.6% in the 1970s to negative values in the early 1980s. This decline also affects the energy sector. The prevailing low price of oil has helped to reduce investment in old and new sources of energy as well as in energy-saving measures, so that a third oil crisis towards the end of the 1980s is not unlikely.^{24/}

iv) Public deficits have increased from 0.5% of the GDP for the period 1968-1973 to 3.7% for 1974-1978 and finally, to more than 5.0% for 1981-1983. Meanwhile,

v) Obligatory social security payments have increased and now are about 13 points higher than in the United States.^{25/} Finally,

vi) Between 1973 and 1983 the Six collectively lost six points of their share of the world market in manufactures, mainly to Japan and the United States.^{26/}

To point out that "some of the weakness in Europe is a consequence of the unusual features of the United States recovery",^{27/} does not minimize Europe's predicament but serves to highlight some other difficulties it faces in an increasingly interdependent system.

2.1 Europe's more advanced welfare State --public expenditure constituted 32% of EEC's GDP in 1960 and 51% in 1982, 28% and 36% in the United States and 21% and 35% in Japan-- meant large deficits when the fall in economic growth caused social expenditure, mainly unemployment compensation and debt servicing, to rise and revenue to decline simultaneously. Given the external constraints on Europe's monetary policy, attempts at deficit reductions could not succeed. Furthermore, as these restrictive policies have been pursued simultaneously by various governments, their negative effects have been confounded by the relatively close integration of the economies concerned. To reduce these deficits investments have been curtailed. If Europe has so far been able to maintain its living standards this has been achieved at the expense of new investment and therefore of future growth.

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Furthermore, an advanced welfare State generates rigidities in the structure and utilization of labour, thus helping to perpetuate unemployment forecasted at 11.2% of the workforce of the Six for the remaining part of this decade.^{28/} Of course, the negative effects generated by this high rate of unemployment are the protectionist drive and the slowdown of technological progress, both of which reduce European competitiveness and the likelihood of faster economic recovery. In other words, the high cost of labour helps to create unemployment which, in its turn, reduces the incentives for technological progress.

If government deficits have reached levels which cannot be tolerated further --from 0.6% of EEC's GDP between 1968 and 1973 to more than 5% in the 1980s-- the traditional co-ordinated policy of stimulating consumption, as practiced in the years 1972-1975, is no longer viable; the only alternative is to finance new investments out of non-public sources ^{29/} and to increase exports, including those to LDCs.

Therefore, while under rapid economic growth conditions the financing of welfare costs could easily be ensured by small variations in the share of GDP of the compulsory levies, under stagnant or zero economic growth their costs have continually increased due: i) to the growing number of retired elderly people, health care, and of course more unemployment benefits; and ii) to declining wage contributions, at a pace which has surpassed that of national wealth. To finance the resulting and growing deficits, investment has been reduced (the crowding-out phenomenon), and a net capital outflow to the United States has lately appeared.

2.2 Although Europe as a whole constitutes an economic entity roughly equivalent to that of the United States, both in terms of demand and supply, not even the EEC represents one market for European products, services and factors of production. Under the impact of the crisis, centrifugal tendencies and nationalistic temptations are seriously jeopardizing progress towards a common market that had been made until the early 1970s.

At the same time two important structural constraints clearly have emerged: on the one hand, the interdependence of European economies has reached such levels that not even its largest countries can still hope to expand on their own (see the United Kingdom's attempt in 1973, West Germany's in the late 1970s and France's in the early 1980s); on the other hand, external dependence has grown so much as to make ineffective any common or harmonized policy which would not explicitly and carefully take it into account.

The first constraint debunks the theory of the internal locomotive for European recovery, the second that of the United States locomotive, as without internally co-ordinated efforts no external stimulus would suffice.

Internal disunity has strengthened Europe's dependence on the United States and has fostered the former's hope that the latter would act as the locomotive for its recovery. This is not the case for two reasons. First, even taking into account only the positive effect of the United States recovery, namely the stimulus that "other OECD countries ... are receiving from the growth of exports to the United States", it may amount to no more than "one-third of their GNP

/growth between

growth between last year and this", growth that for Europe was 2% in the second half of 1983 and is expected to rise at two to two and one-half per cent rates from now on.^{30/} Second, United States recovery is not necessarily sustainable: a) because the negative impact of the fiscal contraction that more likely sooner than later must be implemented to curtail the government deficit may not be compensated by a substantial and lasting reduction in real interest rates; and b) because any relevant decline of the dollar would require stricter monetary policy and therefore cause interest rates to increase further. While the dollar decline would improve United States international competitiveness (unless it is more than compensated by inflationary effects) and therefore curtail imports and foster exports, higher interest rates would attract more foreign capital. On both counts Europe's chances of recovery would be undermined.

2.3 Japan's aggressive penetration into Europe, mainly transport equipment and machinery, coincided with the onset of the general crisis and therefore found the old continent even more divided and less capable of articulating a common response apart from crude protectionist reactions. Having previously paid little attention to the Japanese economic phenomenon, Europe was ill-prepared to cope with it. In fact, of the trilateral relations between the United States, Europe and Japan, those between the latter two have long been considered the weakest in contrast with closer Japan-United States and Europe-United States relations.^{31/} Although Europe-Japan trade increased rapidly in the 1960s--between 1960 and 1970 Japanese exports increased sixfold (from US\$.4 billion to US\$ 2.4 billion) but its imports by slightly less than fourfold (from US\$.5 billion to US\$ 1.9 billion), EEC-9 remaining roughly balanced-- the value of imports from Japan accounted for less than 1% of EEC's industrial consumption at the end of the 1970s. The increasing imbalance in Japan's favour in that decade (in the 1970s Japan's exports to EEC increased eight times and its imports from EEC four times, as in the 1960s) was almost exclusively due to the Community's deteriorating trade balance in more sophisticated manufactures.^{32/} Europe has clearly concentrated on the challenge posed by Japanese exports and not sufficiently on penetrating the Japanese market. Notwithstanding the excellent trade performance, since the beginning of 1981 the continuous undervaluation of the yen --possibly caused by huge capital outflows mainly towards the United States resulting from the interest rate differentials between these two countries-- has helped to strengthen Japan's export capability.

If it is true that "most of Japan's major export items of machinery and equipment to the European Community have some claim to being associated with one of the Community's so-called problem sectors",^{33/} the inability of the latter to mount a trade campaign aimed at Japan's own market can only be explained by European disunity, even considering that, unlike Japan-United States trade, "Japan's trade with the EEC is basically horizontal ... and for this reason the trade imbalance is more structural in nature".^{34/} That disunity has favoured Japan's strategy of penetrating Europe's passenger car market, starting from the peripheral, small non-producer and the relatively more open minor producer countries and then moving into the larger producer countries. Later, substantially different views among EEC member "on protection from Japanese imports and investment have made a common Community position difficult to obtain" for this sector as well as for the television industry. Japanese motor car and television

/investments in

investments in Europe, similar to most of the earlier American ones,^{35/} have been directed at securing and expanding the share of Europe's market established by international trade more than to fostering its export capacity. European countries have been unable to elaborate a common stance so that, like exports, Japanese investments have easily established a foothold in some countries (the United Kingdom for cars and even more for televisions) from where to supply the rest of the continent. Consequently, "the different responses to the Japanese challenge help threaten the cohesion of the Community's custom union, even though the larger market is potentially part of the solution for this challenge".^{36/}

2.4 The profound changes, mostly irreversible, which are reshaping the world economy and the growth mechanism on which the latter rests, necessitate major restructuring. This is all the more difficult for Europe which has been badly scarred by the worldwide crisis and is apparently unable to regain the high growth rates to which it had become accustomed or to reduce its vulnerability, exposed so vividly by the two oil shocks, the American revival and Japanese competition. As "structural change in a stagnant economy necessitates to a much higher degree the absolute contraction of economic activities",^{37/} Europe's socio-economic rigidities further complicate its industrial restructuring with its underlying need for greater accumulation,^{38/} Nevertheless, the latter is crucial to reversing the persistent decline of fixed industrial investment as a percentage of GNP, and thus to enable protective adaptations and the steering of investment into new patterns. The latter, however, not only have to increase mechanization and accelerate the process of intensifying plant stock, but should be capable to extending production capacity and creating new jobs.

In principle, therefore, Europe faces three tasks that not only are difficult but in the short run, at least, are also somewhat contradictory: i) to move into more advanced technological sectors in order to compete with the United States and Japan, a task which requires not so much R&D as better co-ordination of national affairs; ii) to develop the services necessary to control the process of territorial and sectoral decentralization of important production in the NICs; and iii) to generate some form of employment in order to reduce the number of the 19 million jobless people who on the hand threaten its socio-political stability and on the other hand absorb some of the very resources needed to finance the overall adjustment policy. The latter task is all the more urgent because of the large and growing share of youths among the unemployed; consequently, it also involves adjustment or adaptation of the present educational system which does not necessarily help to match the effective supply of labour with the potential demand.

The tackling of these tasks will necessarily affect the role that governments play in national and international economics, as well as the durability of the open trade system on which the present world economic order has largely been built. Thus, if European governments, to say nothing of the European government, are to become "developmental States",^{39/} i.e., if they are to design and implement the adjustment policies meant to restructure their economies and enable them to overcome the present world crisis, then international trading must somehow be internalized, making agreements with other comparable territorial entities necessary and even natural. Such agreements are the only conceivable instruments with which activities of multinational corporations and Eurocurrency transactions can effectively be regulated. Besides, it seems that the United States has already

/decided to

decided to move along similar lines, thus bypassing the GATT, by developing a series of separate agreements on specific issues with individual countries or small groups of nations.^{40/}

2.5 No one any longer doubts that such an adjustment policy, although necessary, involves an incalculable reallocation of capital and labour. And as this also entails fears, governments are often unable to overcome the resistance that the latter generate. Postponement becomes the political fix, even if a planned introduction of inevitable developments is the only way by which to limit their negative impact.

An idea of the changes to come can be obtained by considering recent trends in the United States, as seen by the Bureau of Labor Statistics. Whether we like it or not, this perspective strongly suggests what Europe's future may be.

i) Nearly 75% of all new jobs expected until 1995 will come from service-producing industries. Only medical care business (i.e., consultants, personnel services, public relations, security systems and computer and data processing services), recreation and hotels will provide one of every three new jobs in the decade ahead, so that by 1995 these services will account for 31 million jobs, a quarter of expected total employment.

ii) Only one of every six new jobs will be from manufacturing, so that although the present share of manufacturing in total employment may remain rather stable (19% including mining and construction from 25% at the end of the 1950s), its growing sector will be new and high-technology production.^{41/} During the recession manufacturing lost 2.3 million jobs but generated 1.5 million mostly new ones.

iii) At present, 25 million people are employed in goods-producing industries, manufacturing plus mining and construction; the remaining 75% are in services. While traditional services (retailing, utilities, transport, hotels and restaurants) have not grown and may now be declining, the information sector (clerks, teachers, accountants, bankers, insurance brokers, lawyers, bureaucrats, computer programmers and data processors) has been expanding rapidly and is expected to keep growing, at the moment absorbing 65% of the United States work force and generating more than one-half of its personal income.^{42/} In 1982 banking employed the same number of people as the transport equipment sector (1.6 million); restaurants and other retailing employed more than ten times that number. Within a decade or so, all the manufactured products needed by the United States are expected to be produced by less than 10% of its labour force.

iv) As the sectors that grow faster in general generate low-productivity jobs and consequently pay lower wages than the declining ones,^{43/} this process of "de-industrialization" of the economy ^{44/} poses a serious challenge to the standard of living of a significant portion of the labour force. The fast spreading of part-time, part-year, flexible schedule, adult and/or continuous education and early retirement practices may further contribute to the stagnation of monetary personal income, but not necessarily of family income, if one considers the growing number of spouses active in the labour market.

v) A likely and highly interesting result connected with the information sector is that in it "capital and labour may stay together ... as they did in farming; it looks as if a lot of our children may have a chance to work in small firms as entrepreneurial partners, rather than as resentful employees".^{45/} If in principle capital gains could then compensate labour losses, the absorption into the information sector requires expensive training or retraining programmes. Under these conditions unionization becomes more difficult and labour organizations must rethink their role and reshape their strategies.

vi) The expansion of LDC (namely, NIC) exports of manufactured products to other LDCs (this South-South trade amounted to 36% of LDC total exports of manufactures in 1979)^{46/} and to DCs (North-South trade), clearly represents another aspect of de-industrialization (for some it is even the cause of the latter) and certainly the most threatening one. Yet between 1960 and 1979 NICs' share of world exports increased only from 8% to 8.7%, growing at an average annual rate of 14.8%, slightly higher than that relative to world exports.^{47/} In the 1970s OECD imports of manufactured consumer goods increased in nominal value almost 15 times and those from LDCs almost 11 times; the latter market penetration thus increased from 15.5% to 19.1%, at a rate of 2.4% per year between 1970 and 1980. The share of LDC exports in the apparent consumption of manufactured goods in all DCs averaged 3.4% in 1980 (up from 1.7% in 1970), namely 4.6% in the EEC, 2.5% in Japan, 2.9% in the United States. In 1982 the value of LDC manufactures exported to DCs amounted to US\$ 40.3 billion out of a total of US\$ 108.7 billion.^{48/} Among LDCs, the market penetration by "Far Eastern NIC exporters" grew fastest (8.0% per year) while that of Latin America was the smallest (0.4%).^{49/} Hong Kong, Taiwan and Korea accounted for slightly over half of the manufactured goods exported from LDCs to OECD countries in 1980 (Latin America barely 16%), and 72% of mainly consumer goods (Latin America almost 7%).^{50/} Of these goods exported by LDCs, 46% were bought by the United States and 36% by the EEC.^{51/} Yet these imports seem to have caused a very small job displacement effect, apparently less than .25% of total labour force in the late 1970s.^{52/}

The principal conditions that enable this revolutionary transformation of the United States economy are, in brief:

- i) high mobility of factors of production, including labour, both sectorally and spatially;
- ii) wage flexibility and modest unionization;
- iii) a relatively high level of education;
- iv) a responsive institutional environment, like abundant venture capital, deregulation, etc.; and
- v) the availability of minorities and illegal workers to absorb a large part of the costs of transformation.

2.6 Europe is not in the most favourable position to accept this inevitable process of de-industrialization or to utilize it to regenerate its economic life and to advance its integration. Both these aims are necessarily interwoven and their achievement requires the reorganization of Europe's priorities also as regards its external relations. In fact, if de-industrialization is the result of the growing competitive industrialization of part of the Third World, then mutually beneficial activities must clearly be expanded within a managed system of interrelationships (see last section).

/Anyway, if

Anyway, if Europe's past reaction is any indication of its ability to meet this challenge, there is little scope for optimism unless one strongly believes in the learning capacity of smaller as well as larger systems. A good example of how not to meet the challenge may be found in the approach pursued in trying to keep today's obsolete mixture of plant temporarily in operation. More than 100 steel corporations operate in Europe, of which only one or two were making profits at the beginning of this decade. Increasingly unable to compete with foreign production and operating at half of their capacity, they have obtained no less than US\$ 70 billion of subsidies, enough to finance the complete restructuring of the sector.^{53/} By utilizing the most up-dated technology, management of surplus capacity would no longer be required and the sector could have produced the 100 million tons of steel needed at competitive cost, but employing 150 000 instead of the half-million of 1970.

Like subsidies, protectionism and devaluation are means with which to export unemployment and maintain profits,^{54/} and protectionism has been Europe's reaction to NIC textile and apparel exports. As a result, EEC non-tariff barriers relative to "textiles and textile articles" in 1982 were the highest imposed on LDCs' manufactured exports by DCs. Apart from "arms and ammunitions", the second highest barriers were those on "footwear, headgear, prepared feathers" by the United States,^{55/} therefore allowing West Germany, Japan and Italy to remain the top three exporters in 1982. These exports are directed mainly towards other DCs, from which cheaper LDC products are kept out by the multifibre arrangements. Meanwhile, the introduction of new technologies in this sector in many DCs has almost wiped out the cheap labour advantage of the LDCs.

Nevertheless, European unemployment remains at levels considered unacceptable only a few years ago and the EEC countries can only agree to further restrictions and limitations which, in turn, inevitably repress growth and transformation. The original sin rests with the Common Agricultural Policy, whose fundamental revision is generally recognized as a must which only the shortsightedness of some governments and part of the Eurobureaucracy keeps postponing.^{56/}

As outlined in the Albert and Ball plan, EEC members must agree on a concerted increase of public investment such as to raise their GNP by 1% for three years.^{57/} The amount needed is in the order of 15 billion ECUs, equivalent to 3% of EEC gross fixed investments, for the first year, rapidly declining in the following years because for each percentage point of GNP increase public deficits tend to decline to an amount equivalent to .2%-.3% of the GNP. The main features of the plan are the following:

i) Co-ordination of efforts; there is clearly a community efficiency multiplier which simulations with the EEC Comet III estimate at 2-4 points for the rate of growth and at 20%-66% for improvement of the net external balance.^{58/}

ii) Recognition that a recovery based on a structural transformation can no longer result from demand management but must rest on an increase of investment, not financed by deficit spending. This can be achieved by a Community supplementary loan, mainly through the European Investment Bank, and by taxing non-regenerable raw materials, as suggested by Geldens.^{59/} Higher prices of raw materials would

/force users

force users to save them and part of tax revenue could be returned to LDC producers to help them to diversify.

iii) Direction of investment towards common projects which involve advanced technology and require co-operation among enterprises from different European countries (see the recently established project Esprit). Although EEC countries' expenditure on R&D is not much lower than that of the United States and almost twice that of Japan, it is made ineffective by internal divisions. As a result, Europe starts to show serious lags in many sectors.^{60/} Moreover, comparable laws and institutional infrastructure must be established which will generate an environment more conducive to co-operative efforts and activities.

iv) Establishment, by favouring economic development and intra-European interdependence, of the necessary conditions for the European Monetary System (EMS) to achieve its main objective, namely "a zone of monetary stability in Europe" as a basis for further economic integration.^{61/} Although it is agreed that EMS operations have so far had a moderating effect on the exchange rate variability of the participating currencies and on preventing greater divergence of their economic developments, new impetus must be given to Europe's monetary unity rather than wait for a spontaneous and significant convergence of economic policies, of member States, of which there are no clear signs anyway. The strengthening of EMS would also result from the adoption of Albert and Ball's "Marshall Plan" for the energy sector and for a regional policy, the first to reduce dependence on foreign sources and therefore ease balance-of-payments constraints, and the second to distribute better the costs of adjustment policies. By helping the weakest areas and by generating significant financial flows, probably in the form of project financing, these policies would also help to reinforce the EMS.^{62/}

This approach presents the following implications:

i) Containment of purchasing power of most Europeans in order:

- a) to cope with lower productivity levels by de-industrialization;
- b) to contribute to the reduction of unemployment; and
- c) to liberate resources for financing new investment, including R&D, and for helping to service LDC debt, the 1/3x3 scheme proposed under 3.2 below.

This containment is compensated by more leisure, more flexible working arrangements, better environment and stock ownership or boardroom representation.

ii) Enlargement of the State role in setting new rules of the game and in structuring market outcomes -- "the developmental State" -- but curtailment of its welfare functions.

iii) Explicit replacement of the open trade system with a managed exchange system that will make it easier to cope with the adjustment process, and rejection of the notion that social and economic structures should be left to the international market to determine.^{63/}

/iv) Blending

iv) Blending of the various national economies into a continental system which, by internalizing most the variables relevant to the process of transformation that the countries must undergo, will make control of the variables possible and therefore minimize the costs and disruptions brought about by the process and guarantee its direction more easily.

v) Some form of understanding must be reached with Eastern Europe as Western European integration undoubtedly evokes their hopes and fears, politically as well as economically. Therefore, all efforts should be made to avoid that Europe's process of transformation cum integration is seen in Eastern Europe as destabilizing. At the same time, relations with the United States should be restructured. However, there is that dangerous dream of a united Germany, namely that "if /West/ Germany looks eastward, it weakens the whole basis of the European Community".^{64/}

3.0 The crisis that has battered Europe most of all DCs is the breaking of the fragile economies of Latin America, turning it into the South's worst affected area.

What is now recognized as the worst economic crisis since independence has paralyzed Latin American growth (GNP declined by 3.8% in 1983) and has dangerously depressed standards of living; between 1980 and 1983 per capita incomes declined by more than 10% thus creating potentially explosive situations in many countries of the region. Poverty has increased as a result both of growing unemployment and of declining fiscal resources for social support programmes and in some countries the situation is far graver than is depicted by regional averages. This crisis naturally has more than one cause but indebtedness is increasingly perceived as the most relevant, so much so that in 1982 an influential weekly felt compelled to title an extensive reporting from that region, "Latin America goes into a slump to pay its debts",^{65/} a topic that since then has been extensively analysed, in and out of the region, by academics as well as by governmental and international organizations. It may thus be more fruitful to explore the positive influence and opportunities caused by the crisis and other recent events in the region outside the economic sphere and on the evolution of inter-Latin American and external relations.

3.1 The first and most visible trend is that of the slow but steady movement towards representative political systems, a trend that is all the more astonishing in view of the growing sacrifices that the stabilization programmes required by the crisis are exacting from large sectors of the population. In countries where military rule does not apply involutive tendencies have not surfaced, as had been expected by some, and even Mexican institutions are managing the brunt of the crisis. This demonstrates the stability that has been achieved by Latin American States and the maturity reached by their populations.

A second development concerns the apparent common response which the Falkland/Malvinas war and the debt problem have elicited from the Latin American polity. Whether these instances constitute a real trend towards that long-dreamt-of continental unity it is too early and too risky to say; but they are too important to be dismissed. Furthermore, the process of Latin America's integration cannot be dissociated from its relationship with the United States, and it is the state

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of this relationship which tends to support the idea that conditions for co-ordinated Latin American action are finally being established. In fact, Washington's role in the Falkland/Malvinas war was "largely an expression or reflection of a pre-existing severe deterioration in United States-Latin American ties", and in that Inter-American Military System which had constituted the backbone of this relationship since 1938.^{66/} The establishment of SELA (Sistema Económico Latinoamericano) was another sign of this process of deterioration, as has been the Contadora Group, and lately the Cartagena meeting for co-ordinating a common posture with respect to the debt problem. All these underline the possibility of creating an exclusively Latin American system of security if the United States Government continues to overlook this vast region, except "when the financial crisis threatened to boil over". The United States "low profile or the absentminded neglect of the continent is surely shortsighted",^{67/} and many recent American studies share the view that United States influence in Latin America though still significant, is clearly declining. The sense of unity in Latin America is growing: the Malvinas buried the Monroe Doctrine and the United States role in guaranteeing the region's security. The debt problem is the first occasion on which Latin American countries can step into this vacuum by acting together, as some have proved by assisting Argentina to service its debt last Spring.

Third, as the security aspects of the United States-Latin American relationship recede into backstage and the economic dimension acquires more relevance, Latin America is becoming increasingly conscious that its interests and those of the United States diverge quite basically. The war in the Southern Atlantic exploded the myth of Pan-Americanism and the increasing attention that the United States now pays to the Pacific Basin makes its priorities clear. Besides, while the United States Government's concern for the Latin American debt problems is due mainly to the danger it creates for the international financial system and to the American banks, each point added to United States interest rates means more than US\$ 1.5 billion of extra foreign revenues needed by Latin America to finance the servicing of its debt.^{68/}

Fourth, there is the growing competition that Southeastern Asian countries represent for Latin American manufactured exports which on a per capita basis, remain well below those from the former countries.^{69/} Japanese involvement in some of these productions further contributes to the Asian export drive, while American investment in equivalent activities in Latin America tends to be more directly in the acquisition of the domestic or regional market. Europe is also closely following developments in Southeast Asia; since 1980 the EEC has a wide-ranging co-operation agreement with ASEAN, trade promotion being an important part of it. Furthermore, after the Latin American experience, "the Pacific region provides one of the few secure lending opportunities left to Western bankers" who soon may have to compete there with the Japanese banks.^{70/} The financing of Asian NICs thus seems assured.

Fifth, the crisis is forcing most Latin American countries to reconsider the development strategies utilized. For some time now it has been generally agreed that import substitution and export promotion are not necessarily antithetic policies and accumulated evidence shows that domestic markets more than external

/markets, have

markets, have assured LDC industrialization.^{71/} At present, for many LDCs and certainly for several in Latin America, the need to export is made more dramatic by the growing debt servicing, while the persistent unemployment in DCs does not make imports welcome. Any reduction of the debt burden would necessarily lessen the LDC urgency to export and would interest them more in regional trade and therefore in regional integration. If stagnation and protectionism in DCs were to become chronic, regional integration could be combined with a reorientation of development policies enabling greater emphasis on import substitution, including "import postponement and investments intensively using non-traded goods (such as housing)".^{72/} As "the expectation that United States recovery will spread southward looks less and less convincing", Latin American countries may come to the conclusion that they have to find a new locomotive among themselves.^{73/}

Finally, there is the recent reassuring evidence that even in the worst hit economies like Mexico and Brazil growth has after all reassumed; visible trade surpluses there and in Argentina are all increasing;^{74/} and the social fabric has not been crushed under the strain of the debt and related problems. Financial experts are even detecting the beginnings of a return to Mexico of some of the capital that has flown out since 1982.^{75/} Latin America is seriously reordering its economy -- "austerity without recession" was the theme of ECLAC's twentieth session in Lima in early April 1984-- and is struggling hard to cope with its obligations as the positive results of the efforts it has endured start to show. Yet the region's future would be more reassuring if these results did not ultimately depend on external factors over which Latin America has little control: the most important factors being the interest rates prevailing in the international market, which really means the United States rate, and the evolution of the United States recovery, with the eventual improvement of Europe. But Latin America cannot long remain a net exporter of capital.^{76/} Its debt burden must somehow be reduced so that Latin America can "begin to grow" again.^{77/}

3.2 Given the gravity of the situation in Latin America and the constant threat that its indebtedness poses to the international financial system, several proposals have been put forward to solve the debt problem or at least to mitigate some of its worst effects.^{78/}

On the basis of the analysis developed above, the following sketchy proposal is presented, which rests on four almost self-evident considerations:

- i) the payment of interest on commercial borrowing has become unbearable for most LDCs, while the principal can always be rescheduled;
- ii) the present debt crisis is the LDCs' making as much as that of DC banks;^{79/}
- iii) creditors' governments cannot remain passive and "must step in ... and handle interest payments as a political and not a technical economic problem";^{80/}
- iv) the solution of the debt problem must be connected with LDC development ^{81/} and DC adjustment policies.

Therefore, as "the relationship between lenders and debtors has created an unusual degree of interdependence",^{82/} the lending banks will have to accept only two-thirds of the interest due, half of which will be paid by the debtor country

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and the other half by the creditor government. Both the debtor country and the creditor government will constitute a special fund to which will contribute the equivalent of what they pay to the banks. More specifically:

i) The debtor country pays two-thirds of the interest due, one-third to the banks in foreign currency and another to its special fund to finance a) the productive investment needed to revive its economic development; or, eventually, b) the amortization of the principal;

ii) The DC government contributes one-third of the interest due directly to its banks and another third to its special fund to finance its adjustment policies;

iii) The two special funds will rest completely under control of their respective governments but their activities will be co-ordinated in order to avoid in future the imbalances that have now caused the debt problem.

This proposal is characterized by the following advantages:

i) It does not interfere with the market determination of the interest rate levels nor does it require repudiation of previous obligations; therefore,

ii) Fresh capital can flow into those LDCs that can make optimal use of the relief offered by this scheme and of the financing available through the special fund;

iii) It can be agreed bilaterally between one LDC and one DC and the latter's banks; other LDCs and DCs can then join the scheme; this implies co-ordination, if not integration, among the two groups;

iv) It does not require the creation of an international agency and even IMF does not necessarily have to be involved;

v) It generates pressure in the DCs to find means by which to stop interest rate escalation; and finally,

vi) It spreads the necessary sacrifices equally.

The principal disadvantage of this proposal is the political will needed to start implementing it, a disadvantage common to all proposals made so far and about which little can be said in this context.

With a 45% share of the Latin American commercial debt,^{83/} i.e., two-thirds of the more than US\$ 300 billion total debt, the initiative clearly belongs to the United States, but the EEC, whose share is probably not much smaller, could easily take it if the United States fails to show the needed statesmanship so rightly demanded by Kissinger. With Latin America's interest payments presently estimated at more than US\$ 40 billion per year, commercial banks can expect to net about US\$ 30 billion, something less than one-half of which goes to the European banks. An EEC-Latin American agreement to implement this proposal would save Latin America US\$ 5 billion and force EEC to use an equivalent amount to

/adjust itself

adjust itself to the changing international environment. Part of these sums could be used to finance the promotion and co-ordination of mutually beneficial trade, services, and investment flows between the two continents.

The DCs' "special fund" could also be used to finance the creation of the kind of factory extension service proposed by Zysman and Cohen, i.e., a complex infrastructure to provide technology, financial and marketing support to small and medium-sized manufactures in order to help them to increase productivity and to bring high technology into the production of traditional products.^{84/} By fostering productivity, domestic and foreign investment and intra-industry trade, protectionism can more easily be kept at bay. Unlike the resources conceived of in the Albert and Ball plan, DC resources necessary for the implementation of this proposal should be obtained nationally by extra taxes and budget cuts, in order to redistribute the cost of the salvage operation according to the responsibility of each country's banking system in the debt creation. Utilization of the resources of both schemes should be closely co-ordinated so that the European adjustment facilitates Latin American development instead of causing the imbalance and tensions that DCs' evolution has generally tended to project on the rest of the world. Debt servicing must no longer halt economic development and endanger the social and political fabric of the most promising developing countries. Moreover, the DCs do not seem to have the ability to cope with the demands and burdens of being rentier nations on the scale that would be involved.^{85/}

Present debt crisis management is already a case of international co-ordination. To transform it into an effective plan we need longer-term perspectives, the explicit involvement of the governments concerned, and sacrifices by creditor as well as by debtor countries; in other words, courageous statesmanship

4.0 Historically, relations between Europe and Latin America have been quite intensive, even though the recent American hegemony has reduced them somewhat.^{86/} Since World War II, however, Europe has neglected this important "subsystem" of the world economy ^{87/} and each time that Latin America has looked to Europe for help, to say nothing of the times when it has tried to use Europe against the United States, its expectations have been shattered; worse, it has seen Europe side with the United States.

Two points of view have thus grown up around EEC-Latin American relations:

i) Latin America resents, and violently criticizes, the policies of the EEC more so than of any individual European country;

ii) Europe, and certainly the EEC, shows a "benign neglect", officially motivated by the lack of concrete common proposals from Latin American countries. Fortunately, these two positions are usually softened by feelings of friendship and the will to collaborate, which inspire certain countries and certain European groups.

On the whole, however, economic co-operation between the two has not been particularly close since 1945. Short-term economic interests have gained the upper hand, even though economic relationships, especially concerning investments, have developed, always on the basis of bilateral exchange and contact. The

/principal obstacles

principal obstacles to co-operation with Latin America on the side of the EEC can be identified in the Common Agricultural Policy, in the various Lomé treaties, and in the economic crisis. So far, the EEC has been more important for Latin America than vice versa; while the EEC constitutes the second most important market for Latin America, the latter's capacity for penetrating the EEC since 1974 has shown itself inferior to that of other areas. In fact, 60% of its exports to the EEC are of agricultural origin, making it the largest food supplier, supplying 10% of the extra-EEC imports of food products. Furthermore, Latin America supplies 11% of EEC mineral imports, such as tungsten, copper, iron and iron ore, manganese and zinc. During the last decade it has been the main supplier of five raw materials which are essential to EEC industry.

Latin America has also been a good market for European manufactured goods, which make up 88% of EEC exports, for an annual average of US\$ 8 billion. Brazil and Argentina are by far the most important partners of the EEC in Latin America; in 1978, 30% of Brazilian and 34% of Argentine exports went to the EEC, while 19% and 31% of their respective imports came from the EEC.^{88/}

It is important to note that while the EEC has shown little interest in commercial relations with Latin America, direct private investment and European financial flows towards that region have greatly increased. In 1976 Latin America absorbed 15% of total European direct private investment, directed mainly towards manufacturing for internal or regional markets, thus substituting traditional European exports. European investments in Latin America in the same year represented 26% of foreign investments in the area (from 23% in 1967), while American investments fell from 56% to 51% in the same 1967-1976 period; European direct private investment in Brazil, for example, surpassed the American. This expansion of European investment is not only welcome, but it is considered that "some European companies have shown themselves to be more flexible than those of North America in certain cases, concerning their modality of functioning in Latin American countries".^{89/}

4.1 Closer co-operation with Latin America would be justified for EEC for the following reasons:

i) Economic reasons: the need for a) markets for its own manufactured goods, especially the more technologically sophisticated, for capital goods and for services; b) the import of mass-consumer goods at convenient prices, so as to reduce inflation within the EEC and control the wage spiral; c) the import of minerals and energy, even if only to counterbalance the growing dependence on Africa and the Middle East. Latin America with a market of almost 400 million people whose income averages about US\$ 1 300, with 70% literate adults, whose average life expectancy of 63 years and a manufacturing sector which contributes no less than 30% of GDP, clearly constitutes the greatest commercial outlet for the EEC in the Third World. The complementarity with the EEC is potentially very high, as is shown by the strong demand for European capital goods by Argentina and Brazil and by the commercial and financial expansion of Germany in the continent.^{90/} To allow this complementarity to emerge it is necessary to abandon present protectionist tendencies or to use them selectively in such a way as to spare Latin American exports and thus to start a serious industrial restructuring

/agreed upon

agreed upon within the Community together with a closer co-ordination between industrial policy, European investments in Latin America, and aid to the region. The debt proposal presented under 3.2 above would serve excellently for these purposes. In short, this opening-up to Latin America could help Europe to escape from the present crisis and could be the basis on which to formulate and execute a real common economic policy.

ii) Political reasons: Spain's entry into the EEC will reinforce the demand for a Latin American policy, one in which the EEC would be interested in strengthening Latin American democratic tendencies, as shown by the action undertaken by the Social-Democrat and Christian-Democrat internationals. Such a policy should help to avoid possible authoritarian revivals and to reduce North-South tensions since Latin America constitutes the most developed and aggressive part of the Third World. Finally, an "outstretched hand" policy by the EEC would support Latin America's determination to reduce its dependence on the United States, thus diversifying its economic and political relations. In fact, the two areas have a combined interest in opposing the plans of the superpowers.

iii) Political and economic reasons: "diagonal" relations with Latin America could help the EEC to reinforce and avoid the alternative of American-Japanese domination; to balance the increasing movement of the economic axis towards the Pacific; and finally, to participate more actively in that reorganization of the world economy imposed by the present crisis, a crisis which so far the EEC has passively accepted.

The conception and execution of an integrated EEC policy towards Latin America, with the necessary distinction and articulation to capture its complex and heterogeneous reality, would constitute a historical occasion for the EEC to develop a "global" approach in its international relations and thus to maintain, without American protection, the role it has already conquered within the world economy.

Both regions have reached a crossroads and face a great challenge: Europe can be helped by, and in turn can help, Latin America, because if "Latin American hope for independence today passes ... through Europe",^{91/} the economic future of Europe also passes through Latin America.

Notes

1/ S. Sideri: "Dimensioni Internazionali del Processo di Sviluppo ed Evoluzione dell'Economia Mondiale", Economia banca e Congiuntura, 4, 3, 1982; and F. Frobel: "The Current Development of the World Economy: Reproduction of Labour and Accumulation of Capital on a World Scale", Review, V.4, Spring 1982, 529-31 and 542-44. Frobel rightly notes that "unlike the organized working class, capital could in principle discard this model should changed circumstances require it" (p. 531).

2/ "...profitability in manufacturing remains at a low level, particularly in a number of industrial countries", stressed the IMF Managing Director, J. de Larosiere, in his address to the American Enterprise Institute in Washington in December 1983; Finance and Development, 21, 1, March 1984, 32.

3/ See C. Offe (edited by J. Keane): Contradictions of the Welfare State (London: Hutchinson, 1984), mainly Chs. 6 and 8; P. Barcellona: Oltre lo Stato Sociale: Economia e politica nella crisi dello Stato Keynesiano (Bari: De Donato, 1980), Chs. 8 and 9; S. Brittan: The Role and Limits of Government Crisis (London: Temple Smith, 1983); OECD: The Welfare State in Crisis (Paris: OECD, 1981); and of course, J. O'Connor: The Financial Crisis of the State (New York: St. Martin's Press, 1973).

4/ Sylvia Ostry reminds us of how the then-New Zealand Prime Minister R. Muldoon expressed himself at an OECD ministerial meeting in the Spring of 1983: "The World Economy in 1983: Marking Time", Foreign Affairs, 62, 3, 1984, 533-34. She also emphasizes the sense of amplified risk and uncertainty that interdependence basically conveyed in 1983, and at the present time.

5/ OECD: World Economic Interdependence and the Evolving of North-South Relationships (Paris: OECD, 1983), 9.

6/ Editorial Staff: "The Reality of Economic Interdependence", Finance and Development, 21, 1, March 1984.

7/ A.J. Yeats: Trade and Development Policies (London: Macmillan, 1981), 7.

8/ "...national sovereignties...have long become increasingly ineffective and deceptive even for the most powerful countries, or so-called "superpowers", at home as well as abroad"; R. Triffin, "Concluding Remarks", Banca Nazionale del Lavoro Quarterly Review, 138, September 1981, 265.

9/ J. Cable: "Interdependence: a drug or addiction?", International Affairs, 59, 3, Summer 1983, 373. This is a short but brilliant explanation of the significance of "interdependence" based on an analysis of Britain's dependence on the United States. This high-ranking British diplomat stresses at the outset of his essay that "dependence and independence are more useful concepts" than interdependence (p. 365).

10/ The "...recovery of business fixed investment...is central to a substantial expansion", declared J. de Larosiere in December 1983 (op. cit.).

11/ "Such high rates are evidently a major impediment to revival in other countries"; Ostry: "The World Economy", 539. She continues, "yet the United States economy, so far, appears to be less interest-sensitive than other economies, perhaps for tax-related reasons, or because of the far greater importance of equity markets than in most other countries, the improved profit flow emanating from the recovery and modest wage behaviour. There may be more elusive reasons underlying bullishness, confidence, flexibility, dynamism which are impossible to quantify but undoubtedly important. The Macroeconomic consequences of a growing defense sector, likely rather interest-insensitive, may be still another factor"; Ibid., 539-40.

12/ "The effects of dollar appreciation are also a reduction in United States inflation and an increase in inflation in Europe. For the United States, this "disinflation" effect is estimated to amount to 1.5% per year over the 1980-1983 period. Finally, the effects are not limited to the United States and Europe. LDCs are largely dollar debtors and exporters of primary commodities the real prices of which decline when the dollar appreciates"; O. Blanchard and R. Dornbusch: "U.S. Deficits, the Dollar and Europe", Banca Nazionale del Lavoro Quarterly Review, 148, March 1984, 106.

13/ According to P. Volker's declaration of 25 July 1984, the US\$ 80-US\$ 90 billion capital inflow for this year represents one-quarter of American net savings, and therefore "we are directly or indirectly financing our budget deficit abroad", reports The Economist, 28 July 1984, 29.

14/ The recovery's strength lies in the 1981 tax cut which is expected to provide a reduction of US\$ 300 billion in personal taxes and US\$ 50 billion in business taxes over the period 1983-1985. Tax benefits are estimated to have more than offset the cost of higher interest rates for business investment.

15/ Frobels: "The Current Development...", 539.

16/ H.O. Schmitt: "International Monetary System: Three Options for Reform", International Affairs, April 1974, 50, 2, 197 and 199.

17/ "...active policy measures, as much as the business cycle itself, cannot fail to spill from one country into another, whatever the exchange regime"; R. Dornbusch: "Flexible Exchange Rates and Interdependence", IMF Staff Papers, 30, 1, March 1983, 24.

18/ Under the convertible dollar standard, the seignorage is equivalent to the net amount of money put at the disposal of the world economy by the United States, i.e., the deficit of the official settlements balance. While the rapid growth of the Eurodollar market has rendered this equivalence less precise, there is no doubt that the United States seignorage has also increased. The United States balance-of-payments' official deficit averaged US\$ 0.6 billion annually in the 1960s and US\$ 15.0 billion in the 1970s. See R. Solomon: "Techniques to Control International Reserves" and other essays in R. Mundell and J.J. Polak: The New International Monetary System (New York: Columbia University Press, 1977).

19/ C.P. Kindleberger: "Systems of International Economic Organization", in D.P. Calleo (ed.): Money and Coming World Order (New York: New York University Press, 1976), 37-38.

20/ See also R. Parboni: The Dollar and its Rivals (London: Verso Edition, 1981), 108.

21/ "The crisis is of international proportions, but its effects are being felt far more severely in the countries of Europe than in other countries... The European economy is not only in a state of stagnation but in decline...", and "the welfare State is restricting /its/ growth"; M. Albert and R.J. Ball: Towards European Economic Recovery in the 1980s (Brussels: European Parliament, Working Documents, 7 July 1983), 6, 43 and 24.

22/ They stopped growing faster than productivity only in 1982; Ibid., 23.

23/ Economist Intelligence Unit: The Major European Economies, 1984-90, EIU Special Report No. 173.

24/ Albert and Ball, 86-87, report that while the EEC plans energy investment equivalent to 2.2% of the GDP (actually 1.6% in 1980), Japanese investment will be 3% and that of the United States 4%.

25/ Ibid., 10-25.

26/ EIU: The Major European Economies.

- 27/ Ostry: "The World Economy", 540.
- 28/ EIU: The Major European Economies.
- 29/ Albert and Ball: Towards European Economic Recovery, 84.
- 30/ OECD Economic Outlook, 35, July 1984, 7 and 10.
- 31/ M. Hanabusa: Trade Problems between Japan and Western Europe (Farnborough: Saxon House, 1979), ix-x.
- 32/ G. Shepard: "The Japanese Challenge to Western Europe's New Crisis Industries", The World Economy, 4, 4, December 1981, 377.
- 33/ Ibid., 378.
- 34/ Hanabusa: Trade Problems..., 61 and 82.
- 35/ Ibid., 36.
- 36/ Shepard: "The Japanese Challenge...", 381 and 387-89.
- 37/ W. Michalski: "The Need for Positive Adjustment Policies in the 1980s", Intereconomics, 18, 1, January-February 1983; Michalski also writes that "there is either a virtuous circle of micro-economic flexibility and macro-economic stability or a vicious circle of rigidity and instability". (ibid.).
- 38/ R.D. Muldoon, New Zealand's ebullient Prime Minister until July 1984, first maintained that while "economic analysis tell us change is better managed in times of growth, political analysis gives us a somewhat different message", but then immediately added that "putting any change into effect can be done as the recovery proceeds and thereby gives us a little flexibility to adjust to change" ("Rethinking of the Ground Rules for an Open World Economy", Foreign Affairs, 61, 5, Summer 1983, 1079).
- 39/ See J. Zysman and S. Cohen: "Double or Nothing: Open Trade and Competitive Industry", Foreign Affairs, 61, 5, Summer 1983, 1117-19, for whom the developmental state "pursues clearly defined goals of industrial expansion" by attempting "to create enduring advantages and to alter their national place in the world economic hierarchy". Good examples of this state are most of the NICs and of course Japan and France (ibid.).
- 40/ During the Summer of 1984, Mr. M.B. Smith, the United States trade representative, traveled around the world trying to put together agreements with groups of countries, DCs as well as LDCs, in specific areas.
- 41/ M. Geldens, of McKinsey & Co., in his proposal "Towards Fuller Employment" published by The Economist of 28 July 1984, states that of the 19 million new jobs created in the United States during the 1970s, only 5% were in manufacturing, 11% in goods-producing industries, roughly 12% in the traditional service sector and 72% (nearly 14 million jobs) in the information sector, including 3 million mainly employed by State and local governments (ibid., 19).
- 42/ Ibid.
- 43/ The allegation that services expansion has contributed to the country's productivity decline is refuted by the United States Bureau of Labour Statistics.
- 44/ For an extensive discussion of this phenomenon, originally believed to concern mainly the United Kingdom, see F. Blackby (ed.): De-industrialization (London: Heinemann, 1979).
- 45/ Geldens, "Towards Fuller Employment", 19.
- 46/ Contrary to previous assumptions, A.H. Amsden indicates that South-South trade is relatively more skill-intensive than capital-intensive and should therefore no longer be considered as wasteful; "'De-skilling', Skilled Commodities and the NICs' Emerging Competitive Advantage", AEA Papers & Proceedings, 73, 2, May 1983.
- 47/ D. Keschull: "Economic Relations with Newly Industrializing Countries", Intereconomics, 18, 6, November-December 1983, 287, Table 1.

- 48/ UNCTAD: Protectionism and Structural Adjustment, TD/B/881 (Part II), 2 February 1984, 9, Table X.
- 49/ V. Cable: "Trade Policy Towards the NICs-Options for EEC", IDS Bulletin, 14, 3, 1983, 34, Table 2 and 35, Table 3. See also H. Chenery and D. Keesing: "The Changing Composition of Developing Countries Exports", in S. Grossman and E. Lundberg (eds.): The World Economic Order (London: Macmillan, 1981).
- 50/ D.B. Keesing: "Linking Up the Distant Markets: South to North Exports of Manufactured Consumer Goods", AEA Papers & Proceedings, 73, 2, May 1983, 338 and 339, Table 1.
- 51/ Ibid.
- 52/ C. Hamilton and M.E. Krenin: "The Structural Pattern of LDCs' Trade in Manufactures with Individual and Groups of DCs", Weltwirtschaftliches Archiv, 116, 2, 1980.
- 53/ Geldens, "Towards Fuller Employment", 18.
- 54/ Zysman and Cohen: "Double or Nothing", 1123.
- 55/ UNCTAD: Protectionism, Trade Relations and Structural Adjustment, Belgrade Conference, TD/274, June 1983, 17.
- 56/ J. Pearce, "Reform of the Common Agricultural Policy and the Third World", in C. Stevens (ed.): EEC and the Third World: A Survey 2 Hunger in the World (London: Hodder and Stoughton, 1982); S. Harris, A. Swinbank and G. Wilkinson: The Food and Farm Policies of the European Community (Chichester: John Wiley & Sons, 1983), Ch. 14; C. Mackel, J. Marsh and B. Revell: "The Common Agricultural Policy", Third World Quarterly, 6, 1, January 1984.
- 57/ Blanchard and Dornbusch, "U.S. Deficits", 90 and 106, maintain that "a temporary and modulated fiscal expansion in Europe still appears both desirable and feasible" because "as long as fiscal expansion remains high in the United States and lower in Europe, the appreciation of the dollar will remain".
- 58/ Albert and Ball: Towards European Economic Recovery, 38-39 and 57-59, Tables 7, 8 and 9.
- 59/ Geldens, "Towards Fuller Employment", 20.
- 60/ See data reported by Albert and Ball: Towards European Economic Recovery, 121, Table 10.
- 61/ R. Triffin: "The European Monetary System and the Dollar in the Framework of the World Monetary System", Banca Nazionale del Lavoro Quarterly Review, 142, September 1982; and L'avenir de l'ECU, San Paolo ECU Newsletter, March 1984; C. Secchi: "The European Monetary System and the external financing of less developing countries", THEMA Towards a European Monetary Fund (Torino, Italy: San Paolo Bank, 1980).
- 62/ On this point see Parboni: "The Dollar and its Rivals", 156 and 163-68; on the EMS relationship with the Dollar.
- 63/ Zysman and Cohen: "Double or Nothing", 1124; also R. Reich: "Beyond Free Trade", and A. Bressand: "Mastering the 'World Economy'", both in Foreign Affairs, 61, 4, Spring 1983.
- 64/ A. Sampson: "Europe's Conservative Alignment", Newsweek, 6 August 1984, 14.
- 65/ The Economist, 25 September 1982, 73.
- 66/ H. Muñoz: "Beyond the Malvinas Crisis: Perspectives on Inter-American Relations", Latin American Research Review, XIX, 1, 1984, 158-161.
- 67/ R. Roett: "Democracy and Debt in South America: A Continent's Dilemma", Foreign Affairs, 62, 3, 1984, 696.

68/ OECD estimates that per every one point rise in interest rates costs non-OPEC countries closer to US\$ 1.9 billion; Brazil, Mexico and Argentina face US\$ 1.35 billion extra payments. OECD: External Debt of Developing Countries, 1983 Survey (Paris: OECD, 1984), 26. See also The Economist, 2 June 1984, 76.

69/ D. Morawetz: "Manufactured Exports, Labour Productivity and Employment in Latin America: A Hypothesis Based on the Clothing Industry in Colombia", in M. Syrquin and S. Teil (eds.): Trade Stability, Technology and Equity in Latin America (New York: New York Academic Press, 1982), 84, Table 6.

70/ Newsweek: "Banking on Asia: West Meets East", 2 July 1984, 35.

71/ D. Nayyar: "Transnational Corporation and Manufactured Export from Poor Countries", Economic Journal, 88, 394, March 1978. In the case of Chile and Argentina "el proceso desustitutivo anuló también...los efectos potenciales favorables sobre el crecimiento del producto, atribuibles a la expansión de las exportaciones en los primeros años. Después de 1978, estas últimas tienen un impacto negativo de una magnitud similar al proceso desustitutivo directo. Ambos efectos combinados acentuaron la relación deficitaria del sector con el exterior". V. Moori-Koenig and J. Weinstein: "Liberalismo Económico y Sector Industrial: Experiencias Recientes de Argentina y Chile", Economía de América Latina, 9, 2nd Sem., 1982, 218.

72/ C.F. Diaz-Alejandro: "Some Economic Lessons of the Early 1980s" in J.N. Bhagwati and J.G. Ruggie (eds.): Power, Passions and Purpose (Cambridge, Mass.: The MIT Press, 1984), 197-98. Also L. Taylor maintains that, at least for Mexico, "movement toward a more inward-oriented policy and more emphasis on income redistribution, may be inevitable over the next few years". "Mexico's Adjustment in the 1980s: Look Back Before Leaping Ahead" in R.E. Feinberg and V. Kallab (eds.): Adjustment Crisis in the Third World (New Brunswick and London: Transaction Books, 1984), 157; and F. Parkinson: "Latin America, the Newly Industrializing Countries and the New International Economic Order", Journal of Latin American Studies, 16, Part I, May 1984, 132.

73/ A. Sampson: "Democracy and Debt Bomb", Newsweek, 19 March 1984, 4.

74/ The Economist, 16 June 1984, 54.

75/ The American Federal Reserve Board estimates that "over one-third of the US\$ 252 billion increase of the major Latin American debtors between 1974 and 1982 went into buying assets overseas or was salted out in foreign bank accounts... The BIS estimates that some US\$ 50 billion of capital flowed out of Latin America between 1978 and 1982..., but capital slowed to a trickle in 1983", The Economist, 23 June 1983, 75-6.

76/ Such a situation developed in 1982 and continued in 1983 when the region experienced "a net outflow of...foreign exchange on the order of US\$ 17 billion, which was made possible mainly by reducing imports --a factor which in turn was the main reason for the trade surplus recorded last year"; Inter-American Development Bank: External Debt and Economic Development in Latin America (Washington: Inter-American Development Bank, 1984), 5 and 6, Graph 1. Actually, United States exports to Latin America dropped by 40% between 1981 and 1983, a drop which, according to the United States Commerce Department, cost the country an estimated 400 000 jobs.

77/ Address by E. Iglesias, ECLAC's Executive Secretary, at ECLAC's twentieth session in Lima, reported in Notas sobre la Economía y el Desarrollo de América Latina, 393-394, May 1984, 4.

78/ P.P. Kuczynski: "Latin American Debt", Foreign Affairs, 61, 2, Winter 1982/83, 361-64; and "Latin American Debt: Act Two", Foreign Affairs, 62, 1, Fall 1983, 33-38; M. Zombanakis: "A Way to Avoid Crash", The Economist, 30 April 1983; The Economist, 19 February 1983, 79; 2 April 1983, 13; and 12 May 1984, 24; P. Kenen: "A Bailout Plan for the Banks", New York Times, 6 March 1983; N. Nancy: "Banks Must Acquire Equity in Debtor Countries", Wall Street Journal, 30 September 1983; L. Silk in the "Economic Scene" of The Herald Tribune, 5-6 May 1984; H. Lever: "The Debt Won't be Paid", The New York Review, xxxi, 11, 28 June 1984.

79/ "Victims of a scam, debtors are treated as culprits", explodes C. Maechling Jr., of the Carnegie Institute for International Peace, who then continues as follows: "For this appalling state of affairs the major 'money center' banks and economic advisers are largely responsible. In the 1970s, repeating the pattern of the 1920s, the bankers threw fiscal conservatism to the winds and engaged in an orgy of competitive lending. Loans were pressed on nations teetering on the brink of insolvency and at the mercy of world commodity prices. Academic quacks in the garb of 'development economists' propounded the fatuous doctrine that debt can be pyramided indefinitely". The Herald Tribune, 1 August 1984. Anyway, by May "investors finally gave up believing that big American banks could avoid losses on their loans to Latin America", The Economist, 2 June 1984, 75.

80/ H. Kissinger: "Solving the Debt Crisis: What's Needed is Statesmanship", The Herald Tribune, 25 June 1984.

81/ It can be demonstrated that "high indebtedness is a by-product of interest rates higher than the gross return on capital employed"; in other words, when interest rates increase faster than investment profitability "indebtedness becomes a self-feeding process". P. Manes: "International Indebtedness, Interest Rates and Inflation", Banca Nazionale del Lavoro Quarterly Review, 140, March 1982, 109 and 113.

82/ Kuczynski: "Latin American Debt: Act Two", 27.

83/ Ibid., 27. At the end of 1980 American banks' international lending amounted to US\$ 67 billion: Mexico, US\$ 26 billion; Brazil, US\$ 21 billion; Venezuela, US\$ 11 billion, and Argentina, US\$ 9 billion. The most exposed United States banks were Citicorp (US\$ 10.3 billion), the Bank of America and J.P. Morgan (US\$ 7.4 billion, each), The Economist, 2 June 1984, 75.

84/ Zysman and Cohen: "Double or Nothing", 1137-38.

85/ Lever: "The Debt Won't be Paid", 3.

86/ S. Sideri: "Crisi Mondiale, Crisi dei Modelli di Sviluppo Latino-Americani e Relazioni Economiche della Comunita Europea con l'America Latina", Giornale degli Economisti e Annali di Economia, 15, September-October 1983, 601-16.

87/ W. Grabendorff: "Latin America and Western Europe: Towards a New International Subsystem?", in J. Pearce (ed.): The European Challenge: Europe's New Role in Latin America (London: Latin American Bureau, 1982).

88/ Eurostat: Analysis of Trade between the European Community and the Latin American Countries, 1965-1980 (Brussels: EEC, 1981).

89/ N. González: "Relaciones Económicas de América Latina con la Comunidad Económica Europea" (mimeo; Santiago, Chile: CEPAL, 20-21, May 1982), 9.

90/ Y. Berthelot and J. de Bandt: Impact des Relations avec le Tiers Monde sur l'Economie Francaise (Paris: La Documentation Francaise, 1982) for France; and Hamilton and Krenin: "The Structural Pattern", 274 in general, conclude that the most industrialized LDCs are potential clients for Europe rather than rivals.

91/ C. Fuentes: "For Latin America, Hope Comes from Europe", The Herald Tribune, 13 February 1983.

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