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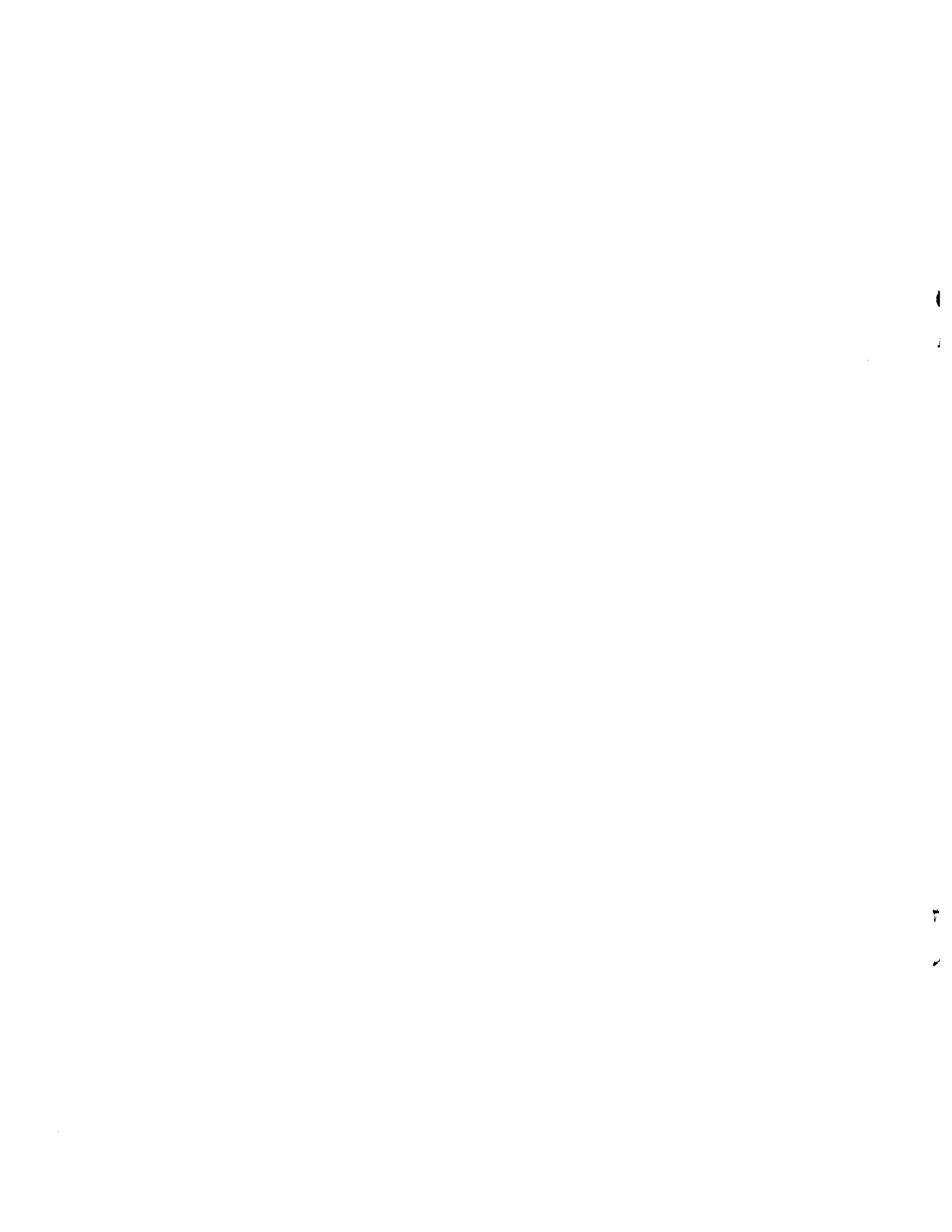
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**Expert Meeting on Crisis and
Development in Latin America
and the Caribbean**

Santiago, Chile, 29 April - 3 May 1985

STATEMENT BY MR. ENRIQUE V. IGLESIAS, MINISTER OF FOREIGN AFFAIRS
OF THE ORIENTAL REPUBLIC OF URUGUAY AND FORMER EXECUTIVE
SECRETARY OF THE ECONOMIC COMMISSION FOR
LATIN AMERICA AND THE CARIBBEAN

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It goes without saying that it is a source of great pleasure and emotion to be once again here in what I continue to regard as my home, at the side of my dear friend Norberto González, in whose capable hands the institution now rests, and Dr. Raúl Prebisch, to whom I owe so much and whose opinion I value so highly. I am also very pleased and moved to be at this meeting for which we all worked so much, which we were preparing so hopefully throughout the past year, and which is now a reality through the generous presence of all those attending.

We have felt for a long time in ECLAC that there was a need for an integrating effort, an exercise of collective reflection on the times we are living through in Latin America. Two events were responsible for precipitating our decision to hold a meeting for these purposes, however. One was the collapse in recent years of the neo-liberal options which seduced so many circles of opinion in so many countries in the 1970s. The neo-liberal solutions came to our countries together with important changes in economic outlook, and they were imposed through forms of social "engineering" which were linked in many cases with authoritarian political régimes. Those were difficult years for the work of ECLAC, when the lure of speciously appealing solutions hung over many of ECLAC's member governments.

The collapse of these neo-liberal solutions was a violent crisis of conscience for the region and of course also for ECLAC.

The second event was the so-called crisis of external indebtedness caused by the build-up of external debt and by a kind of treacherous turnaround in the international cycle marked by extravagant interest rates, the resurgence of protectionism, and violent contractions in the inflow of private capital.

It then appeared that the time had come to make a proper appraisal of the many experiences patiently analysed here in ECLAC from the conjunctural and medium- and long-term perspectives, which the region had followed from day to day and had intimately experienced at the intellectual and political levels. ECLAC decided at that point to promote a debate aimed fundamentally at weighing these experiences, reviewing the many signals coming from the world economy, and setting afoot an exercise in collective reflection by technicians and politicians. I mention these two groups of persons because it is essential that the reflection should not be confined exclusively to the technical level if we really want to

rethink the world in which we will have to live after this crisis, which will be novel in many respects because of its profound asymmetry and complexity and which leaves us with every day that passes further away from a theoretical basis for analysis and from any clear answers to the problems facing us.

Don Raúl referred a little while ago to the crisis of the capitalist world, which has undoubtedly been shrinking the room left to us to foresee and anticipate developments. We now feel that we are on shaky ground as regards the possible bases of an international economy in which we could have real confidence. On the other hand, the capitalist system has shown an unexpectedly great capacity of resistance in coping with the challenges facing it: during the years I was associated with ECLAC I witnessed a number of seemingly final crises of capitalism in succession, such as the monetary crisis, the gold crisis, the energy crisis, and now the debt crisis, which, it must be acknowledged, has seemed to be breaking up in the last few months.

I said earlier that the present crisis is very one-sided, for without a doubt there would be smiles if we said that the United States or Japan were in crisis today. The forecasts, too, are very varied. Some observers tell us that the system is on the way to catastrophe, but others maintain that we are on the threshold of a spectacular rebirth of the world economy thanks to the new technological services which will imbue the world economy with vibrant dynamism. There is no doubt that we are living in a novel world, without precedent in the history of capitalism, which far outstrips historical experience and even our own intellectual capacity. One thing which is clear, however, is that this crisis is accompanied by a new form of international relations which corresponds much more closely to a return to the Schumpeterian model than to that of Keynes. In other words, we who have worked for so many years in the United Nations on the quest for the fundamental elements of universal regulation, inspired directly or indirectly by the thinking of Keynes, must now acknowledge that we seem to be moving in the direction of a world without global regulators: a world ruled exclusively by the principle of struggle and competition.

The same crisis also seems to be visible in some respects in the socialist world, where the quest for efficiency and for the incorporation of new technology and institutional reforms has found such novel expression as the recent reforms in the People's Republic of China.

In the developing world, too, the crisis has asymmetrical features. The flexibility shown in recent times by South-East Asia has meant that in many countries of that region the situation is substantially different from that being experienced in Latin America. On the other hand, the tragic situations being suffered in Africa are also far removed from the crisis affecting us.

This has caused us to come to the conclusion that we really must speak of the special case of Latin America, even though there may well be some European and African countries in similar situations. Our crisis is part of a confused and perplexing world; there seem to be no clear theoretical bases to go on as there were in the 1950s, and the crisis is taking place within a set of parameters and conjunctures which make it very difficult to look ahead. This is the crisis we must tackle theoretically and politically in order to cope with challenges which present themselves in many different terms and on many levels.

The dimensions of the Latin American crisis oblige us, first of all, to consider the great heterogeneity of the region. It is increasingly difficult to speak of it as a whole and to give global pictures which make any sense. Think, for example, of the difficulty of making a synthesis which includes both continent-sized Brazil and the mini-economies of the Caribbean. Even so, however, I would say that there are still four or five aspects of the Latin American crisis which are worth briefly recalling, because they are going to be discussed here.

First of all, there can be no doubt that even in the 1970s the collapse of certain Latin American growth models could be foreseen. Nobody can deny that Latin America has changed a lot, often for the better, and a great deal has been done. It is sufficient to look over some social and even economic indicators to realize that the Latin America of today is very different from the past, but nevertheless the fact remains that in the 1970s important contradictions were developing between the modern and traditional sectors, between social demands and the capacity to sustain them, and between the modernization coming from outside (propelled by international trade links) and the internal form of articulation which would be capable of giving us a self-sustaining growth model.

The external debt worked like an anesthetic, and the region was able to avoid facing up to many of the effects of these imbalances until the end of the 1970s, aided by a degree of financial indulgence unprecedented in the economic history of Latin America. All this gave us doubts about many things and even

gave rise to many false paradigms with which we lived from day to day. It must be acknowledged that we were dazzled and perplexed and that somehow, almost miraculously, many of the adverse effects were put off.

An important aspect of the present crisis in Latin America and the Caribbean was the financial indulgence to which I just referred and which overcame the scruples of all the models, whether orthodox or heterodox. In some cases this was motivated by a legitimate desire to increase investment, while in others it was done to share up the irresponsible adoption of extravagant kinds of openness to international trade flows.

The fact is that widespread opening-up took place, and the consequence of this was the external situation which has been handed down to us and has become more acute in the 1980s. At the end of the 1970s, Latin America's external debt of US\$ 200 billion, in a situation in which the growth rate of foreign trade was considerably higher than that of the product, seemed manageable; but in the 1980s, interest rates of up to 20%, the drop in the terms of trade and all the implications of the shrinkage of financial flows changed the prevailing climate so suddenly that the debt grew from US\$ 200 billion to US\$ 350 billion, purely as a result of the interest which was accumulating. Thus, the situation became literally unmanageable and, in many aspects, unforeseeable.

Another aspect of the crisis relates to external relations. Nowadays the world is suffering from a kind of liberal shock, and this liberal shock is faithfully reflected in North-South relations, not just because to some degree these relations are determined by such phenomena as interest rates but also because there can be no doubt that the liberal shock which the world is now experiencing means that it would be utopian to think that in the next few years we can relive the extraordinary inflows of capital of the 1970s or the soaring terms of trade of those years. On the contrary, I believe that Latin America, as a continent of intermediate development, is going to be thrust abruptly into the rules of play deriving from this liberal shock and will be increasingly exposed to formulas of competition, to having to pay more than the odds for the privilege of entering markets, and to situations in which its position will have to be violently competitive and set within a context of reciprocity as a formula of international trade. For this reason, when we call for "solidarity" in meeting the crisis, we forget that the world climate is quite different, that the time of the Alliance for Progress has past, and that this is not the heyday of

international co-operation which we so often dream about in the United Nations. Such international co-operation is being increasingly limited to cases of natural disasters, famines and other emergency situations, because the climate of international relations today is not the same: it is much crueller and much more subject to the play of power relations, and this is an objective reality with which we have to live.

Another aspect of the crisis is that it is what I would call a crisis of the highly ideologized macroeconomies. Thus, in Latin America we have witnessed the failure of ideologies which advocate ingenuous formulas of economic populism, in which social efficiency was betrayed in next to no time by economic inefficiency and we have also witnessed doctrines of economic efficiency, devoid of popular support and of social efficiency, which have also suffered the most resounding failure. The reality so important to economies such as ours, which must adopt certain macroeconomic view of a structural nature in order to administer economic and social projects, has not been convincingly witnessed in the past. We must recognize that there have been no clear responses of any kind in this respect and that in one way or another we owe a large intellectual debt to the management of macroeconomies with a structural orientation in Latin America.

Another dimension of the crisis is that it is a crisis of ideas, not only in the developing countries but above all in the industrialized countries. I find it hard to believe that the neo-Keynesian equilibria which prevailed up to the beginning of the 1980s can be replaced merely by a pure and simple return to the economic rules in effect prior to the 1930s. Perhaps history will prove us wrong and put us on another level, but it is hard to believe that the world can operate in the presence of these financial imbalances, these fluctuations in exchange rates and these financial flows which transfer resources from one part of our continent to the other. It is hard to think that this can provide a firm foundation for sustained growth.

The theory of development is no longer in fashion in the industrial countries; today it is no longer represented among the best sellers in the bookshops. There has even been some deterioration in the theory of development as we knew it in the 1950s and the 1960s when it was advocated by such great thinkers as Dr. Prebisch who is here with us today. There has even been erosion in some models (such as that of Tanzania) in which we who work in the United

Nations had high hopes, while others viewed as egalitarian archetypes, such as that of China, are changing their traditional bases. We have seen a series of approaches fall by the wayside, such as the basic-needs approach, the critical poverty approach and many others which claimed to be the answer and now seem to be going into eclipse on the intellectual scene. ECLAC, however, as a centre of thinking which wishes to remain autonomous, owes a large debt to all these models, and it would be interesting to go further into the matter.

The changes which are taking place in the theory and practice of socialism itself are attracting our attention every day. We must understand why they are occurring. We must also understand why many of our economic models were not capable of assimilating the changes which occurred in the social structure; why many economic and social models were unable to influence the political concepts underlying present-day Latin American societies, and why we have this divorce between social, political and economic models instead of building them into a composite whole which would be at once social, political and economic. This tendency to isolate solutions is not only doomed to failure but will do a serious disservice to the history of Latin America.

This meeting therefore has the basic task of progressing in the diagnosis of the crisis, suggesting ways of bringing it under control, reflecting on the process of structural change that we must face up to in dealing with the liberal shock, and making those structural changes which will bring us to a dynamic and just society.

I should like to say a few words concerning the matter of bringing the crisis under control. In these past few years our lives have all been taken up by what has been the most violent crisis of the past fifty years, involving the destruction of capital and unimaginable social costs. Perhaps because I come from one of those countries in the region which has felt the effects of this most violently, I have a very clear view of the degree of impoverishment reached in Latin America.

In every country adjustment mechanisms have been installed which are increasingly limited by the loss of autonomy of our internal policies due, inter alia, to the external debt and inflationary pressures.

The basic problem in bringing the crisis under control has to do with how to manage the external debt. The worse thing that could happen to the developed as well as the developing world is to think that the problem of the external debt has been settled or is being settled. This message should be loud and clear. The debt problem has not been settled, notwithstanding the international complacency towards it nowadays. Not only is there no basic solution to the problem, but in some cases it is getting worse. And we have to say this very coolly and responsibly.

I believe it is important to state clearly that the problem has been managed to some extent and put off, but in the present international environment and in the conditions which now prevail and those which threaten to prevail in the future, it would be a serious mistake to think that a solution is being found for it. This is why the countries of Latin America demand a political dialogue: not to politicize the debt, as has been claimed, or to deny the inevitable relationship between debtors and creditors or the individuality of each country as regards the question of the debt, but because the problem is of such magnitude and puts such constraints on our capacity for development that for us it is a highly political matter. However, this is equally true for the industrialized countries, because if Latin America's economic problems get out of control, this will be a political problem for the whole world.

There is, however, a second issue to which I attribute fundamental importance as regards bringing the current crisis under control, and that issue is inflation.

In the 1950s and 1960s, there was only one country in Latin America with inflation over 50%; last year, however, there were seven, in three of which inflation was over 100%, while in some others it was close to or even greater than 1 000% per year. The average rate of inflation for the region in 1984 was 160%.

Inflation is an extremely serious matter because it is not only an economic but also a social and political problem. Certainly, we do not value stability above all else, as the orthodox approaches do, and neither are we so naive as to believe that growth can still take place with these rates of inflation. What we are saying is that we are dealing with a long-standing problem which now, however, has very different characteristics from before. In the 1950s, we experienced inflation which was caused by the structural changes entailed by industrialization,

urbanization and the problems facing the new society that was taking form in the region. In the 1970s, we experienced so-called "imported" inflation. The inflation of today is different; it is closely related to the debt issue and has unaccustomed characteristics connected with its long duration, our having become accustomed to it, and its penetration into the "biology" of society. It is linked to such difficult problems as the fact that the tightness of the money supply hinders the so-called "inflationary tax" from working, systematic indexing, etc.

I am convinced that in many Latin American countries --I do not say all-- we are using categories and formulas to deal with this problem which are not in keeping with the different type of inflation we are experiencing. I say this with total conviction because I believe that the present type of inflation calls for more than just economic solutions since, in addition to having an impact on the entire outlook for economic growth, it also has an impact on the outlook for social and political stability. As we can see, this subject is of enormous importance in the Latin America of today and, in this connection, we are indebted not only to orthodox but also to heterodox schools of thought. No clear-cut solutions have yet been put forward, and I am afraid that we are fooling ourselves with many of the adjustments that are now being promoted in the region. In all honesty, we cannot say that we are on the right track yet in this respect, because the inflation of today is structurally different from any of the types of inflation that we have seen in the past. What is even more important, however, is that inflation has become an essential element in the political approach, and without a broad-based internal consensus there is no way to eliminate this type of inflation. That is why I can say, with legitimate pride, that in my own small country, where this problem is on a much smaller scale, our attempt at concerted political effort, whatever its defects, constitutes a real step towards solving the problem.

I would now like to discuss the subject of a qualitatively different type of development. I think it is dangerous to place too much emphasis on this term "qualitatively different". What is involved here, and I believe that in saying this I am interpreting the documents presented by the Secretariat, is to take up once again the long-standing tradition of ECLAC, i.e., to return to an analysis of the actual situations we are dealing with, to learn what is really taking place in the world, and to reflect upon the new challenges being faced, on the basis of

that mixture of ideas and praxis which has been the great legacy of this organization throughout the nearly 40 years of its existence. In a sense, this would be a return to the experience of ECLAC in the 1950s, i.e., a return to the close examination of international events in order to slowly build up a line of interpretation based on ideas and practice, but without, of course, pretending to offer broad paradigms, since no-one is now in a position to put these forward: not in the region, nor in the world.

A great task of economic, social and political modernization of Latin America lies before us. Modernization must start off from the basis, first of all, of the Latin America that exists today, which is a different and extremely complex Latin America. Without a doubt, the first step is to understand this fact. The second is to understand the world, because the relationship between the centre and the periphery --a concept which this Commission contributed to economic thought-- is and will continue to be a fundamental relationship. It is necessary to understand our problems in the light of the changes that have taken place in this relationship between the centre and the periphery and to try to modernize Latin America while taking into account the domestic effort, the effort to establish regional integration and possible new forms of insertion in the world setting. This would indeed be modernization based on a sound foundation: modernization, as stated in the documents, which is both endogenous and selective, so that internal linkages may be created within the economy and so that it may be protected from fluctuations in trade, prices or international finance.

This surely involves reviving --in a world that is entering into a third industrial revolution-- the high-priority problem of technological innovation: an area in which the region must not cease to reflect and work. It also calls for institutional modernization, which is why the Secretariat documents refer so often to the subject of the State. The modernization of the State is perhaps one of the most difficult and most political of the challenges which will face the region in coming years. Insofar as social modernization is concerned, it seems to me that even the very techniques of social policy are being questioned. Perhaps, with this crisis, conventional social policy has been left behind and other ways should be sought of reaching the lowest-income sectors of society: that 10% or 20% which never receives anything and which is now the victim of some of the most underprivileged situations in history. With respect to political modernization,

Aníbal Pinto pointed out, with his customary brilliance how the old mesocratic alliances that formed the political base on which Latin America was built in the 1950s, 1960s and 1970s have been breaking down. For many reasons, including the autocratic and dictatorial political movements that have sprung up on occasion in Latin America, these alliances have broken down. I believe that political modernization involves the rebuilding of mesocratic alliances as well as broad internal alliances within the countries, within the public sector, between the public and private sectors, and in all areas of society. If we are unable to take a modern approach to politics with a sense of commitment in relation to the demands before us, we will have some very difficult times ahead. Meanwhile, the world goes on, and just as entire areas have lagged behind in the past, the region might well have to pay that price if we do not make a great internal effort to exert social and political pressure for carrying modernization forward.

This is the task which lies before us; it entails a return to the realities of Latin America and the world, the reaffirmation of broad objectives of growth, equity, autonomy and integration and, especially, recognition of the imperatives of the world into which we are becoming integrated and the vital need for creativity in dealing with these problems, this latter element being an important facet of this organization's work.

In speaking about the elements behind such an important meeting as this, I have attempted to put across my perception of the vital importance of this exercise in reflection, which will mark the beginning of an ongoing process, and to make it clear how important it is that the results of this meeting should constitute a true working mandate for ECLAC, reflecting the contribution of all the governments. The intellectual debt which Latin America owes to ECLAC will surely grow still greater as the region, in the words of Norberto González, prepares itself to meet, not the past, but the future.

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