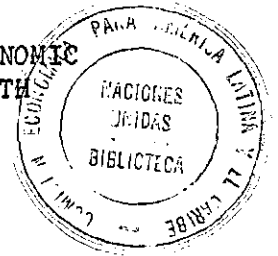


STATEMENT BY MR. ENRIQUE IGLESIAS, EXECUTIVE SECRETARY OF THE ECONOMIC
COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN AT THE NINETEENTH
ANNUAL MEETING OF THE INTER-AMERICAN ECONOMIC AND SOCIAL
COUNCIL OF THE ORGANIZATION OF AMERICAN STATES

Santiago, Chile, 27 August 1984



The present economic crisis has already been the subject of ample consideration of the region, and the Secretariat of ECLAC and the secretariat of the Latin American Economic and Social Council have both made their contribution in this regard.

In addition to the various positions adopted, certain specific points have been made, which are worth noting on this occasion:

a) Latin America has experienced its most difficult economic period since the Great Depression. Although, after three long years of economic contraction, the worse seems to be over for the majority of countries, the situation continues to be very difficult, and there is no reason to think that, if present trends continue, there will be fundamental changes in the next few years.

b) This situation is deeply rooted in the critical performance of the international economy, but it has special traits which distinguish it from other difficult situations in developing countries. It is first and foremost a Latin American crisis, in whose particular origins there is a mixture of the region's old structural problems with other problems arising out of the world financial situation in the 1970s and beginning of the 1980s.

c) The growth of the crisis is partially attributable to factors of various kinds, many of which were predictable; however, we were overtaken by unexpected and unusual trends in the large majority of those factors in the world economy. The result was an adverse combination of factors unprecedented in previous inflections in the world cycle.

In that adverse combination of factors, attention should be drawn to:

i) ill-advised domestic policies, in which growth and economic expansion are based on excessive external indebtedness. In some cases, this indebtedness gave rise to a legitimate and necessary expansion of investment in production. However, in many other cases, it was used to finance excessive internal and external expenditure, bad macro-economic policies which contributed to the flight of capital,

/inconsistent processes

- inconsistent processes of commercial and financial openness and -let us not forget to mention- expenditure on weapons;
- ii) the policy of financial permissiveness applied by private financial sectors in a way unknown in previous decades. It must be noted that the presence of big debtors today is due to the existence of big lenders;
 - iii) the erratic and adverse developments on the international economic scene, which, at the end of the decade jeopardized Latin American terms of trade (and are still jeopardizing them) and were later reflected in unprecedented nominal and real interest rates, which still persist and dramatically increase the original cost of contracting the debt. All of this caused a drastic curtailment of earnings in foreign currency and a spectacular rise in debt-servicing payments;
 - iv) the financial contraction of the private sector in recent years. After having injected close to US\$ 30 billion into the region, international banking suddenly withdrew from Latin American markets and effected a marked cutback in its contributions, largely as a result of the financial-package policies of the International Monetary Fund.

The way in which the region has reacted to these events has shown a great spirit of responsibility on the part of national governments.

The region responded to its external payments problems by violently contracting its standards of living as a way of reducing domestic expenditure. In this way it generated a large surplus of foreign currency in its balance of trade. It will be remembered that in 1983 a surplus of close to US\$ 30 billion was generated from total exports amounting to little more than US\$ 80 billion.

With surpluses of such magnitude and with adjustment policies promoted by IMF, it was possible to meet external commitments in the majority of cases. The domestic consequences are well known -destruction of economic capital; outbreaks of inflation, accompanied by big devaluations to adjust relative prices and thereby encourage exports and limit imports; a dramatic contraction in standards of living and deterioration in social conditions and employment.

The fact which best reflects the combined effect which such adjustment has had on the region as a whole, is that in 1983, the average standard of living was the same as that in 1976.

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An extensive discussion could be held on the "avoidable" or "unavoidable" aspects of a process of adjustment such as that now being made in the region. To cope with a precipitous drop in external income and with the adverse performance of interest rates, countries had no alternative but to embark upon an arduous process to adjust their economy. Thought should undoubtedly be given to the distribution of the cost of this adjustment at the domestic as well as the external level. It might, however, be more productive at this point to read out a sober list of some of the features which this process has developed during the nearly four years it has been in effect:

a) The first feature is the region's extraordinary dynamic capacity. There is no doubt that, in the face of situations as difficult as those of the present, the region has been capable of mobilizing its productive apparatus in two complementary directions: an intensive effort at import substitution and an equally dynamic expansion in exports, particularly in those countries with diversified industrial parks and a good provision of resources and raw materials for export. To a good extent, this capacity exceeded all predictions.

b) The second feature is the acute asymmetry in the distribution of the costs of the adjustment among the agents having a part in creating the current critical situation in the region. Not only did the banking system share those costs marginally, but in many cases the situation of the private banking system improved. The banking costs for intermediation rose sharply and began to recede only recently. In what was a highly debatable move, governments were forced to extend public guarantees for debts and commitments contracted by the private sector. Loans to the region of all types were cut back, and were only expanded to contribute to adjustment packages with the IMF intended for the collection of debt service and interest. Equally distressingly, in several cases credits of a commercial nature were and are continuing to be cut back.

c) The third feature is the ambivalence in the behaviour of the external cycle and the lack of response to the effects of the economic reactivation in the industrial countries, in which so many hopes were placed when the adjustment processes of several years since began.

/The reactivation

The reactivation had extremely positive effects on the United States economy. A recent report from that country's Department of Commerce highlights the fact that its exports grew by 14% and its imports of Latin American products rose by 20% in the first six months of 1984. It is hoped that the latter will amount to US\$ 49 700 million in 1984, which would represent an increase of 19% over the previous year. Influential in this process were the combined effects of the expansion of domestic demand in the United States and the effects of the economic adjustment programmes supported by the International Monetary Fund. The process was largely beneficial to countries exporting manufactures to the United States market. Unfortunately, the situation was not equally beneficial to those countries exporting raw materials, whose trade is directed towards Europe or other markets, where the effects of the reactivation continue to be quite slow.

The counterpart to those trade surpluses with the industrial world has been the costs of indebtedness: bank interests, instead of declining as hoped, continued to rise, by two points during the course of the year. This meant an annual increase in debt service of approximately US\$ 5 000 million.

Another disturbing element in the ambivalence of the external sector is the negative evolution of the terms of trade. The latest ECLAC reports indicate that the terms of trade continued to fall in 1982 and 1983 by a percentage of around 7% per year. The evolution of the world cycle created hopes that, in accordance with past experience, the price index of Latin American commodities would improve, but this did not occur.

From March 1984 onwards, the average price index for commodities as a whole ceased to grow, and in recent months it even decreased slightly. Some of these products have recently dropped considerably in price; among these, some are of vital importance to the region, such as sugar, bananas, beef, copper and fish meal. These decreases may be estimated at around 10% in the last three months. This has dealt a severe blow to the hopes that had been raised concerning the benefits to be derived from the economic reactivation in the Northern countries and has raised distressing questions on the future course of events and the viability of current adjustment processes.

/Finally, another

Finally, another ambivalence in the current situation is the new outbreak of protectionism in the Northern countries, with which this meeting will have to deal extensively. I do not wish to go into detail concerning its implications or the implications for the viability of the adjustment processes of the fact that the debtor countries have the capacity to generate exportable surpluses in order to service their debts. This certainly indicates a contradiction that is difficult to incorporate into any scheme for resolving the region's current problems.

What are the prospects for the immediate future?

I do not believe that it would serve any purpose at this time to take a position on the worldwide debate going on today between the "optimists" and the "pessimists" concerning the course of the world economy. Some feel that a comprehensive and dynamic solution to the problem is in the process of being found. Others, however, feel that the contradictions which currently exist in connection with interest rates and the fiscal policies of the industrial countries contain the seed of future disturbances.

Indeed, I believe that it is wiser to focus our attention on the emerging realities of the international cycle; along very broad lines, these realities indicate that, under present conditions, the future course of the economy of Latin America and the Caribbean will only partially depend on their own ability to respond. Many elements hinge upon cyclical international economic factors which these countries do not control.

So long as the current interest rates and low raw materials prices prevail, the region is going to be caught up in the "false dynamics of stagnation". Between 1982 and 1983 there was a US\$ 23 billion turnaround in the region's trade balance, and the counterpart to such a surprisingly marked shift was an outflow of resources from the region to the exterior in the form of net finance payments (which have totalled US\$ 50 billion over the last two years); despite this, however, the foreign debt continued and will continue to grow.

If current external conditions persist, living standards in the region in 1990 will, at best, be similar to those of 1980, and its external indebtedness will be much greater.

/Its position

Its position as a net exporter of resources is an untenable one for the region and leads to a contradictory growth process in which most of the increases will go to pay the service on the external debt, leaving little or nothing with which to improve its inhabitants' standard of living or to expand investment.

It therefore comes as no surprise that, under such conditions, social and political limits of tolerance are being strained.

The imperative need for a positive adjustment in the immediate future

No one any longer disputes the imperative need for introducing internal adjustment policies which will inevitably have social and economic costs. To a large extent, these adjustments have already been made in most of the countries of the region, and their costs have been borne only with difficulty by the economy and society. We can now hope to move on to a stage where the only option will be to make positive adjustments aimed at achieving steady growth and an improvement in living standards.

We must realize that the economic adjustments made in recent years were primarily governed by our preoccupation with balancing our external accounts and paying the debt service. Domestic balances were largely a by-product of those efforts, or were merely the means of achieving them. In line with the basic philosophy of the IMF, we must now also energetically address ourselves to attaining a domestic adjustment by expanding supply so as to lead to a steady growth of domestic activity, while striking those external balances at another level.

The pace and the depth of this positive stage continued to depend largely on economic reactivation in the North. The consolidation of the current economic growth of the United States and the extension of what growth to the other dynamic centres of the OECD countries are certainly prerequisites for a positive adjustment in Latin America. But that is not enough. It is also essential that there be a change in three fundamental elements of the external situation, i.e., interest rates, the terms of trade and the flow of external capital.

Until such time as these changes -which to a large extent are beyond our control- take place, the agents in the critical process that has been generated in the region should be brought together with a view to taking co-operative action commensurate with the problems at hand.

/As was

As was made clear in the Quito and Cartagena meetings, this co-operation should concentrate on three areas:

a) Achieving a more equitable distribution, on the part of the private financial agencies, of the costs of adjustment. This should have an effect on interest rates, commissions and terms. The trend towards automatic capitalization of interest and pluralistic negotiations should be increasingly dealt with by the international financial system and the International Monetary Fund. Unless the banks are willing to share the costs of adjustment and to provide fresh resources to the region, the situation will be difficult to handle and could even become explosive and non-viable for some countries.

b) Strengthening international co-operation mechanisms, particularly those which fall within the domain of the International Monetary Fund, the World Bank and the Inter-American Development Bank. It seems perfectly legitimate to expect that rescheduling agreements should, along with clauses providing for new resources, provide for a reduction of the cost of such financing. It seems equally reasonable to consider the possibility of having the IMF open special windows to provide additional credit or even revise the forms of conditionality to which adjustment programmes are subject, especially as regards terms, and stress the fact that when there is a reduction of demand, definite measures must be taken to help increase supply, following a sustained period of compression of consumption and investment.

c) Ensuring that future adjustment mechanisms provide for consideration to be given to trade problems. It is obvious that if the current situation with regard to prices and access in many of the importing countries continues, long-term solutions will not be viable.

At their summit meeting in London, the seven major industrialized countries committed themselves to eliminating protectionist barriers. In so doing, they explicitly recognized the existence of such barriers and the negative effect they have on their own economies, and particularly on debtor countries that must generate trade surpluses in order to meet their commitments. As the Special Committee on Financing and Trade (CEFYT) of the Inter-American Economic and Social Council of the Organization of American States (OAS) rightly states in its report, the linkage between the problems of trade and of finance is essential to adjustment. This approach will no doubt be borne in mind during this debate.

/As we

As we review all these areas of concern, we cannot refrain from stressing once again the fact that it is imperative that the austerity programmes which the region must continue to carry out for several years to come must go hand in hand with domestic policies and measures aimed at achieving social and economic efficiency. This means giving priority to domestic efforts and saving, the efficient allocation of investment resources, the protection of the marginal sectors most affected by the recessive process, and the expansion of all forms of regional trade and complementarity.

As a result of the recent crisis, and in the difficult environment in which we will have to operate over the next few years, the margin of error as regards economic policy has been greatly reduced. This means that now, more than ever before, domestic economic and social policies must be of the highest quality in order to enable us to meet the challenge of the moment.

Nevertheless -and let us say it once again- no matter how painful our experience in the last few years has been, it has left us with this lesson: that the region has extraordinary dynamic potential. Better handling of domestic economies and a more favourable international situation should certainly help us solve our problems and prepare us for the next stages in a sustained and dynamic development process. Thus, not only will we be advancing our own social development, but the region will continue to be a dynamic factor in the international economy and in that of the countries of the North.

This meeting should reiterate the importance of international dialogue under the present circumstances. The region has made it amply clear, through the important meetings held this year both in Quito and in Cartagena, that while it is aware of the need to continue with efforts at bilateral negotiation, it wishes to mobilize mechanisms for international dialogue in order to improve the environment in which current negotiation processes are carried out. We trust that this meeting will represent yet another contribution to this goal, towards the achievement of which, we sincerely believe, no effort should be spared.



