

# CEPAL

## Review

*Executive Secretary*  
Norberto González

*Deputy Executive Secretary for  
Economic and Social Development*  
Gert Rosenthal

*Deputy Executive Secretary for  
Co-operation and Support Services*  
Robert T. Brown

*Director of the Review*  
Raúl Prebisch

*Technical Secretary*  
Adolfo Gurrieri

*Deputy Secretary*  
Rosa Nielsen



UNITED NATIONS  
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN  
SANTIAGO, CHILE, DECEMBER 1985

# CEPAL

## Review

Santiago, Chile

Number 27

### CONTENTS

Foreign policy and international financial negotiations: the external debt and the Cartagena Consensus. <i>Jorge Eduardo Navarrete</i>	7
External debt: Why don't our governments do the obvious? <i>Guillermo O'Donnell</i>	27
External debt and crisis: the decline of the orthodox procedures. <i>Robert Devlin</i>	35
The external debt of the Latin American countries. <i>Raúl Prebisch</i>	53
Latin America and integration: options in the crisis. <i>Guillermo Maldonado Lince</i>	55
Trade and equilibrium among the ALADI countries. <i>Jorge Torres Zorrilla and Eduardo Gana</i>	69
A two-front attack to overcome the payments crisis of developing countries. <i>Fábio R. Fiallo</i>	79
The imperfections of the capital market. <i>Eduardo Sarmiento</i>	97
The agriculture of Latin America: changes, trends and outlines of strategy. <i>Joint ECIACIFAO Agriculture Division</i>	117
On the role of small and medium-sized enterprises in the improvement of the production structure of developing countries. <i>Carlo Secchi</i>	131
Twenty-five years of the Inter-American Development Bank. <i>Felipe Herrera</i>	143
A sélection of addresses delivered at the Expert Meeting on Crisis and Development in Latin America and the Caribbean (Santiago, Chile, 29 April to 3 May 1985)	153

# The external debt of the Latin American countries

*Raúl Prebisch\**

Until a short time ago, the view was frequently held that the worst was over in relation to the external debt of the developing countries: interest rates would fall and a revival of trade was just around the corner.

I do not know what is going to happen in the future. But who can believe in the probability of much lower rates given the current United States budget deficit? Who can expect an intense revival of the developing countries' trade, present conditions in the major industrial centres being what they are?

Meanwhile, the debtor countries have had to resort to emergency solutions. Their heavy interest burden has been paid partly by increasing the debt and partly by obtaining an external surplus through a drastic cut in imports.

According to some projections, the developing countries should cut back on their imports in order to obtain an external surplus, but generally the very serious internal consequences of such a step are ignored. The fact is that the developing countries have to follow a policy of growth to counteract the effects of years of low rates of development or stagnation. So, even if external conditions were to improve, the first priority should be a higher rate of growth.

We should not forget that import restrictions have added to the adverse effects of the fall of exports and the deterioration of the terms of trade. This combination of factors was responsible for the intense contraction of economic activities which resulted in higher levels of unemployment and disguised unemployment. In consequence, chronic inflation has grown considerably worse.

Take the case of Argentina. Very drastic measures have been taken recently in order to ward off the imminent risk of hyperinflation. The task in itself is very difficult, but the lack of a proper solution to the debt problem is seriously jeopardizing the success of the entire plan. Social and political stability are at stake.

However, up to now I cannot see any signs of a fundamental change of attitude on the part of the creditor countries. Moreover, I am extremely concerned by the internal effects as well as the adverse impact on our relations with developed countries, especially the United States.

This is basically a political problem in both its origin and development. Short-term lending operations by important banks using the resources of the Eurodollar market have not been subject to any regulation whatsoever, notwithstanding the recognition that such regulation is indispensable in internal banking activities. On the other hand, developing countries fell all too easily into the temptation to borrow lavishly without a clear sense of responsibility.

I do not in any way mean that governments should take charge of the negotiations. Nonetheless, I do feel that governments should establish a framework within which these negotiations are to be held.

Several suggestions have been offered. There are no magic solutions, however, and both debtors and creditors should share the burden. The share of the former has already been very great owing to the contraction of their economies, but the latter have not suffered except in a few cases. Any deliberate reduction in interest rates would inevitably be detrimental to banks, and the extension of maturities would deprive them of quite large commissions and charges.

But I do not see how this can be avoided. I always bear in mind the wise way in which New York city solved its debt problem a few years ago: a far-sighted solution for all the parties concerned.

•Testimony given by the author in the United States House of Representatives, July 1985.

The moment has arrived to enter decisively into a new stage. Our countries have been reluctant to form a debtors' club, and rightly so. But the situation seems to me untenable. I am afraid that sooner or later unilateral measures may be taken if nothing is done; some countries have already had to take such measures on a temporary basis.

Such an outcome would be highly regrettable from every point of view, except perhaps from the standpoint of some short-term political interest. In parentheses, I would like to recall that at the beginning of the 1930s, as a young Under-Secretary of Finance, I strongly advocated the full payment of the debt. Argentina was one of the few debtor countries that continued to do so, at a great sacrifice. I do not think that this could be repeated under the present difficult circumstances, if a proper solution is not found.

Several ideas are in the air. I myself feel rather inclined towards the idea that debtor countries should pay the full amount of interest charges but should transfer only a part of it and deposit the rest in a fund to be used for investment purposes, under conditions agreed upon by both parties, taking into consideration the foreign constraints on development. I consider this a very constructive way out of the present serious situation.

This is not the only matter of concern to me. Your country, as well as mine, is wasting a great opportunity to build new relationships with a long-term perspective. We should not repeat the errors of the past. Many mistakes have been made on both sides. An objective appraisal has to be made, but time is getting short. Let us begin a frank discussion right now.