

CEPAL

Review

Director
RAUL PREBISCH

Technical Secretary
ADOLFO GURRIERI

Deputy Secretary
GREGORIO WEINBERG



UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA

SANTIAGO, CHILE / AUGUST 1983

CEPAL

Review

Number 20

Santiago, Chile

August 1983

CONTENTS

Note by the Director	7
Letter from the Constitutional President of the Republic of Ecuador, H.E. Dr. Osvaldo Hurtado to Messrs. Enrique V. Iglesias, Executive Secretary, ECLA, and Carlos Alzamora, Permanent Secretary, SELA	9
Letter from Messrs. Enrique V. Iglesias, Executive Secretary, ECLA, and Carlos Alzamora, Permanent Secretary, SELA to H.E. Dr. Osvaldo Hurtado, Constitutional President of Ecuador	11
Bases for a Latin American response to the international economic crisis. <i>Carlos Alzamora T. and Enrique V. Iglesias</i>	17
The world crisis and Latin America. Conclusions of the meeting of leading personalities convened by ECLA in Bogotá from 19 to 21 May 1983	47
The crisis of capitalism and international trade. <i>Raúl Prebisch</i>	51
Latin America: crisis, co-operation and development. <i>Guillermo Maldonado, Eduardo Gana and Armando Di Filippo</i>	75
Renegotiation of Latin America's debt: An analysis of the monopoly power of private banks. <i>Robert T. Devlin</i>	101
Wages and employment in international recessions: recent Latin American experience. <i>Victor E. Tokman</i>	113
Is there a fair and democratic way out of the crisis? <i>Adolfo Gurrieri and Pedro Sáinz</i>	127
The external debt and the financial problems of Latin America. <i>Carlos Massad</i>	149
Some CEPAL publications	165

The world crisis and Latin America

Conclusions of the meeting of leading personalities
convened by ECLA in Bogotá from 19 to 21 May 1983

A. ORGANIZATION OF THE MEETING

1. The Executive Secretary of ECLA called together a group of leading Latin American personalities* in order to analyse, on a strictly personal basis and without implying that their views were shared by their respective governments or institutions, the impact of the international economic crisis on Latin America and possible solutions to this problem. The meeting took place in Bogotá from 19 to 21 May 1983 and was officially opened by the President of Colombia, Dr. Belisario Betancur.
2. During this meeting the participants unanimously expressed their deep gratitude for the perceptive, warm and effective support received from the President of the Republic of Colombia, the different national authorities of that country, and its people as a whole.
3. The following are the main conclusions reached at the meeting.

B. CONCLUSIONS

4. As a result of the severe imbalances in the international economy and the build up of unresolved problems as regards their development strategies and domestic economic policies, the countries of Latin America are passing through the severest economic crisis experienced in the last fifty years. The sharp drop in commodity prices, the resurgence of protectionism in the industrial centres, the high real interest rates still prevailing on international financial markets, the violent contraction in the inflow of external private credits after a period in which such credits increased to an extraordinary degree, together with a great mass of problems of domestic origin, constitute factors which have combined to give rise to acute balance-of-payments crises and severe declines in growth rates—and even in absolute levels of economic activity—in most of the countries of the region.
5. The international economic crisis has been closely linked to the unfavourable economic performance of the industrialized market economy countries in recent years. The decline in their economic activity not only represents a sharp setback in the long cycle of expansion which began after the war, but is also a reflection of the effects of the structurally imbalanced markets built up by these countries over the years. The crisis of the industrialized countries has also been influenced, however, by the very restrictive monetary policies which they have applied in a context also characterized by big fiscal deficits. As a result, interest rates have reached unprecedented high levels which represent the main obstacle to the achievement of a vigorous and lasting recovery in the international economy, while they have increased to an extraordinary extent the cost of servicing the Latin American countries' external debt. Furthermore, because of their projections on domestic interest rates and the fact that in some countries they have coincided with policies of exaggerated financial liberalization, they have helped to weaken the solvency of enterprises and to make it more difficult to achieve a recovery in economic activity and employment in most of the countries of the region.
6. The contraction in the Latin American countries' external trade has been visible not only in their trade with the rest of the world but to an even greater extent at the intra-regional level. Thus, at a time when intra-Latin American co-operation is more necessary than ever, it is being the victim of the combined effects of the international economic crisis and of domestic factors which join with the recessive forces operating in the region to erode the co-operation process. The increasing re-

*See the list of participants at the end of this article.

restrictions on reciprocal trade which have been growing up in all the subregional integration groupings in Latin America are a source of particular concern.

7. It must also be acknowledged that the shortcomings in the economic policies applied by some countries of the region have played their part in the serious situation now being faced by them. Consequently, as well as adopting the immediate measures called for in order to face up to the crisis, the countries must gradually progress towards styles of development which are not only more in keeping with the more restrictive international context and the growing legitimate aspirations for social equity which will probably prevail in the future but are also based to a greater extent on domestic effort.

8. In order to face up to these challenges, it is necessary to make thorough-going changes in the current international economic order in line with the proposals repeatedly made by the developing countries in different international forums. It is essential, too, that in the immediate future the main developed countries should put into effect vigorous economic reactivation programmes through co-ordinated action which avoids the generation of new inflationary pressures. This reactivation policy must also include measures taking account of the legitimate interests and aspirations of the developing countries, so that the latter may play the dynamic role which corresponds to them in the international economy.

9. The developing countries, for their part, must decide on action aimed at reactivating their own economies both by taking advantage of the opportunities offered by the recovery of the world economy and by increasing the domestic demand of each country and of the region as a whole. Likewise, important changes are called for in the way the domestic economic policy of most of the Latin American countries is run, with the aim of bringing it in line with the new circumstances and effecting the structural changes needed in order to promote better income distribution and, through it, the achievement of the necessary social consensus.

10. All this calls for more effective and timely action on the part of the State, not only in order to face up to the crisis but also in order to ensure that, once it has been overcome, the economies will resume the process of economic growth on more stable, equitable and dynamic bases. In order to do this, it will be necessary to make more effective use of monetary, fiscal and exchange instruments, place domestic financial markets on a sounder basis, provide the public sector with non-inflationary sources of revenue, and bring about more equitable sharing both of the sacrifices involved in the adjustment process and the fruits of economic development.

11. The countries of the region have clearly expressed their firm will to honour the external commitments they have assumed. Even at the cost of extreme sacrifices, however, many of them are not likely to be in a position to pay their external debt servicing costs on the terms originally contracted. Moreover, some of the solutions reached so far seem rather to be mere expedients which could give rise to new and even more serious difficulties, while in the renegotiation processes the private commercial banks have excessively increased their commissions and surcharges in respect of the loans which have been refinanced.

12. The existing international financial institutions lack both the faculties and the resources needed to offer solutions which reconcile the fundamental interests of debtors and creditors. Furthermore, the conditions associated with the supply of emergency aid to debtor countries actually represent an expedient for rationing out the institutions meagre resources. These circumstances are leading to a still greater contraction of international trade which is aggravating the world crisis and increasing its social costs for our countries.

13. We are thus facing an intrinsically unstable situation. There is an increasingly general conviction that it is urgently necessary to achieve a real and lasting solution which will help to restore stability to international relations. In no way does this mean advocating a collective confrontation between the debtor and creditor countries, nor does it mean promoting the joint refinancing of the external debts of countries which are in very different situations. It is essential, however, to take political initiatives at the highest possible level in order to bring home to those responsible for running the international community both the serious consequences which could result from a further contraction

in the economic activity of the majority of the Latin American countries and the need to make available additional resources and create different conditions so that these countries may refinance their debts appropriately. As the President of Ecuador, Dr. Osvaldo Hurtado, has so perceptively understood, it is vitally important that these initiatives should stem from concerted action by the governments of the region, since the present dramatic situation not only affects them and their external creditors but also seriously limits the well-being and future prospects of hundreds of millions of Latin Americans.

14. For these reasons, it is essential that additional machinery should be set up, on top of that already in existence, in order to establish a more suitable international framework for the processes of renegotiation of the debt. These measures should include the participation of international financial organizations, the private banks, and the financial authorities of the creditor countries, and they should provide for the supply of additional resources in order to meet both the debt servicing commitments and the minimum financing needs for trade and development. At the same time, efforts should be made to reschedule debts for terms in keeping with the nature of the credits available and to bring about substantial reductions in interest rates, while the costs of the international adjustment process should also be distributed much more equitably between the creditor countries and banks and the debtor countries.

15. Along with the foregoing, it must be recognized that the fundamental balance-of-payments problems will not be finally solved unless conditions are created in international trade—especially as regards prices and openness of markets—which make it possible for the countries of the region to obtain the external resources they need to face up to their debt service commitments.

16. It is also desirable to reappraise the considerable potential offered by intra-regional co-operation, not only as an instrument for reducing the effects of the international recession and of the uncertainty over the future of the world economy, but also for aiding in the adoption of national development strategies which are in keeping with the new circumstances. In this connection, it is urgent to take concrete measures to avoid a further deterioration in the degree of economic interdependence already achieved within the existing subregional groupings and to halt and if possible reverse the harmful tendencies towards the imposition of additional restrictions on reciprocal trade observed in recent times. It is also necessary to approach the different forms of co-operation which could be tried by the Latin American countries with the greatest possible realism and flexibility. One of the aspects of the regional and subregional integration processes on which immediate action could be decided is that of the strengthening of the reciprocal payments systems in order to promote higher levels of intra-regional trade.

17. In addition, the external support policies needed in order to relieve the balance-of-payments problems of the Latin American countries must be accompanied by appropriate internal measures. In the short term, these measures should seek to promote the recovery of economic activity so as at least to conserve the basic levels of employment and consumption already achieved, while at the same time keeping in mind the standing objectives of the fight against inflation.

18. Both the measures adopted on the internal plane and the national policies designed to combat the crisis must be conceived in the light of the objectives, aspirations and proposals which the Latin American countries—and the developing countries in general—have long been advocating in various international forums with a view to promoting a thorough-going reorganization of the international economic order which will give them a more equitable and dynamic share in its functioning.

C. LIST OF PARTICIPANTS

BOTERO, Rodrigo (Colombia)	MENDES, Jorge (Colombia)
CASTILLO, Carlos Manuel (Costa Rica)	MINDLIN, José (Brazil)
CARRILLO FLORES, Antonio (Mexico)	MONCAYO, Jaime (Ecuador)
DEMAS, William (Trinidad and Tobago)	PALACIO RUDAS, Alfonso (Colombia)
ESPINOSA VALDERRAMA, Abdón (Colombia)	PEREZ GUERRERO, Manuel (Venezuela)
FERNANDEZ SAAVEDRA, Gustavo (Bolivia)	PIZANO SALAZAR, Diego (Colombia)
FERRER, Aldo (Argentina)	PREBISCH, Raúl (Argentina)
FURTADO, Celso (Brazil)	RAMIREZ OCAMPO, Jorge (Colombia)
GARAY, Luis Jorge (Colombia)	RODRIGUEZ, Carlos Rafael (Cuba)
HARE, Morris (Colombia)	SALGADO, Germánico (Ecuador)
IGUÍÑIZ, Javier (Peru)	SARMIENTO, Eduardo (Colombia)
JARQUIN, Edmundo (Nicaragua)	VALENCIA JARAMILLO, Jorge (Colombia)
KUCZYNSKI, Pedro Pablo (Peru)	WONSEWER, Israel (Uruguay)
MARSHALL, Jorge (Chile)	