REMARKS TO THE MEETING OF EXPERTS ON THE CRISIS OF DEVELOPMENT IN LATIN AMERICA

Economic Commission for Latin American and the Caribbean

United Nations

Santiago, Chile

April 29 - May 3, 1985

Norman A. Bailey
Senior Associate
Colby, Bailey, Werner & Associates
2550 M Street, N.W.
Washington, D.C. 20037

(202) 296-1166
Telex: 248843 GRI UR
The causes of the so-called debt crisis are well known and no purpose would be served by reviewing them yet again. Responsibility is amply shared by debtor and creditor governments, private companies and banks.

The nature of the crisis is also widely recognized now. It is systemic and structural in nature and therefore must be dealt with in a systemic and structural manner. Further short-term measures taken on the false premise of a temporary liquidity shortage are already counterproductive and will become increasingly so if not supplemented and eventually supplanted by a development, trade and growth strategy.

In short, if present circumstances continue ever-greater indebtedness and eventual default (under whatever name) by several of the debt-ridden countries are inevitable. None of the premises upon which the "temporary liquidity shortage" conclusion was based has proven correct:

- Indebtedness has grown. As of year-end 1984 the Latin American countries owed $75 billion dollars more than at year-end 1981 with, of course, the corresponding interest.
  - OECD growth has slowed.
  - LDC export growth is declining.
  - Real interest rates have remained high.
  - Commodity prices have remained low and in some cases, such as sugar, have actually declined.
- Several countries, such as Costa Rica, Dominican Republic, Bolivia, Nicaragua and Peru are already in default in all but name.
President-elect Alan Garcia of Peru is on record as proposing that debt service payments be limited to 20 percent of export earnings.

- Argentina and Brazil have been declared out of compliance with their IMF programs.
- Brazilian exports are down significantly from the same period of last year.
- The Interim and Development Committees of the IMF and World Bank have met and the results were nonexistent.

Before debtors and creditors reach a confrontational impasse which will have unpredictably disastrous results for world trade and development as well as for the international financial system, all major parties to the crisis must agree on a program including some variation and mix of the following elements:

- Protectionist measures taken by industrialized countries affecting LDC exports must be halted and preferably rolled back.
- Bank and corporate trade credits, properly documented, must be exempted from reschedulings and all trade credit arrears cleared up so that trade financing can return to normalcy.
- The IMF must establish a compensatory financing facility (CFF) for interest rates. Capping interest and capitalizing the differential makes no sense since it only postpones the day of reckoning for the debtors and has very negative implications for bank earnings. IMF subsidization of the differential would provide true relief and would be a more efficient use of IMF
resources in most cases than EFF funding.

- The World Bank must be encouraged to establish the structural adjustment loan subsidiary it has proposed, funded with its own profits and leveraged 10 or 12 times.

- All medium-term project loans must be rescheduled on a long-term basis.

- All balance of payments loans should be converted into 30-year or perpetual bonds at a fixed rate of interest at approximately present levels.

- Cases where debt levels are hopeless (mostly smaller countries) should have a substantial portion of the debt converted into grants. More specifically all their governmental and international organization debt should be so converted.

As for formulating and negotiating such a program, the next meeting of the Cartagena Group, scheduled for Montevideo, should be carefully prepared for, should adopt a concrete and specific program and should demand a meeting of major debtor countries, representatives of smaller debtor countries, certain banks (or perhaps the Institute on International Finance), select creditor governments, the IMF, the World Bank and the Inter-American Development Bank to discuss agreement on the program. I would strongly recommend that observers from other continents be invited to the Montevideo meeting, such as Yugoslavia, Nigeria and the Philippines.

It is clear that vague statements of goals, complaints and requests for meetings will not work. This was made clear
earlier this month. Action is urgently required.