

## **The Us Elite and the Latin American Crises: Concluding Comments**

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The conference brought together a group of distinguished American scholars and corporate executives with four Latin American finance ministers to debate the Latin American crisis of the 1980s and the prospects for the 1990s. The scholars did not necessarily write policy-oriented papers, but, given the presence of business executives, the conclusions of the conference necessarily have a practical and political orientation. My job was to present an evaluation of the conference in its final session. I will give this evaluation a personal accent and a policy orientation. First, I shall sum up what we learned; second, I shall say a word about the possible economic strategy of the United States towards Latin America after the June 1990 Bush initiative; and third, assuming that the United States is interested in deepening its relations with Latin America, I shall analyze what could be the role of the US elite, particularly in relation to the debt crisis, which was almost forgotten as an issue in the creditor countries, but remains the most important international problem to be solved by Latin America.

### **WHAT WE LEARNED**

What did we learn at the conference? We learned that there is an economic crisis in Latin America; that this crisis is defined by stagnation of income per capita and high rates of inflation; that a country like Mexico, which has been able to implement a strong fiscal adjustment and was successful in controlling inflation and in attracting foreign investments, remains stagnant in per capita income terms; that others, like Brazil and Argentina, remain in deep difficulties, in spite of the heterodox and orthodox stabilization experiments; that the origin of the Latin American crisis is the foreign debt crisis, and its major outcome, a fiscal

crisis of the state; that, as a consequence of the fiscal crisis, capital flight increased while savings and investments were reduced, including foreign direct investment.

We learned also that an increasing number of countries in Latin America realized that the time had arrived for an overall change of economic policy; that stabilization is a priority; that fiscal adjustment is a condition for it; that, given the inertial character of inflation, it must be fought by the combination of orthodox and heterodox policies (Paul Beckerman's article was very clear on this subject); that, together with stabilization, it is necessary to promote trade liberalization and privatization; that the reduction of the foreign debt to about one-third of its present level is an essential condition for overcoming the fiscal crisis, for increasing savings, and for the resumption of growth.

In addition, we learned that multinationals may play a major role in the resumption of growth, but that they are no panacea and that they will not invest unless conditions are favorable; that among these conditions are stable government policies, the existence of a strong private sector, reasonable free trade, some degree of protectionism (otherwise investment turns dangerous), a growing internal market, a realistic exchange rate, a low rate of inflation, investment being made simultaneously by local firms and multinationals, with the government providing infrastructure, such as health care and education.

Latin American governments are trying to provide these conditions, but obviously they are not easily achievable. The economic and political obstacles that lie ahead are enormous. Americans used to say that "nothing succeeds like success". The reverse saying is also true. To invert the trend is the real problem.

## **WHAT SHOULD THE UNITED STATES DO?**

I would not like, however, to close this conference with the discussion of what Latin Americans should do: how they should avoid economic populism, developmentalism, nationalism, as much as economic orthodoxy and conservatism in order to confront their real problems. I have already summarized what Latin Americans should do.

Since this was a conference where Americans were the dominant group, I would like to discuss what the United States should do. What kind of policy should the US government and US business enterprises define in relation to Latin America? Let us first look at the United States' economic and political alliances.

In the last decade the US government, using as instruments the Treasury, the Department of Commerce, the International Monetary Fund, and the World Bank, pressured Latin America to stabilize and institute structural reforms, control the budget deficit, liberalize trade, and privatize and protect property rights. Most of these recommendations and/or pressures were in the right direction. But Latin Americans expect more from the United States

than mere recommendations. They look for effective cooperation and the consideration of Latin America as an economic and political priority. What they expect is the creation of an American bloc, such as the bloc being created by Europeans (which will include Eastern Europe) and such as the one emerging in Asia as Japan is actively increasing its influence in East and Southeast Asia.

I know very well that the idea of blocs is a controversial issue. The alternative would be the full success of the Uruguay Round, the elimination of trade barriers, the creation of an increasingly integrated world. In the long-run, I would expect that this will be the world trend. In the short run, however, this will not occur. The Uruguay Round will not be a complete success. The Europeans will continue their integration process. The Japanese will continue to give priority to the increase of their influence in the "Pacific Basin Area" – actually in East and Southeast Asia.

The United States is aware of these trends, but there is a division of opinion about the advisability of a more definite orientation towards Latin America. President Bush made a White House speech on June 27, 1990, in which he proposed a clear opening towards Latin America. However, this Bush initiative towards Latin America is still in an exploratory form. It is far from being the definition of an effective economic policy. The President was clear in his objectives:

The three pillars of our new initiative are trade, investment, and debt. And to expand trade I propose that we begin the process of creating a hemisphere-wide free trade zone; to increase investment that we adopt measures to create a new flow of capital into the region; and to further ease the burden of debt, a new approach to debt in the region, with important benefits to our environment.

As to the creation of a free zone, Mexico is already starting to discuss it. As to debt, President Bush's speech presented an important innovation after the Brady Plan: Official credits will also be subjected to reduction.

Meanwhile, the United States remains committed to its global strategy, insisting on having an equal presence everywhere. It relates itself to Latin America (except Mexico) in the same way it does with other countries. And it feels more solidarity with European countries, where the level of economic and cultural development is similar, than with Latin Americans. That may be the correct strategy for the United States. Seeing, however, what Japan and Europe are doing in a quite deliberate way, one would be justified in having doubts about the correctness of such a strategy. When you want to be everywhere, you risk being nowhere.

It is difficult for the United States to define such a strategy because it has a tradition of not having any economic strategy. It tends to identify economic strategy with economic planning. It prefers that the market, autonomously, defines priorities. I would suggest, however, that it may be time to reconsider this refusal to strategic economic action. Internally

the United States needs a more consistent industrial and technological policy. This was long informally done for defense and space expenditures, but everything indicates that this course is exhausted. The same is true for its foreign economic relations. To have a policy in this area does not mean economic planning, but it means a permanent consultation with American multinationals and a definition of priorities and incentives. Europeans, through the EEC headquarters in Brussels, and Japan through MITI, clearly have a strategy. Why should the United States not have one?

## **THE DEBT AND THE US ELITE**

Finally, a word about the foreign debt and the progressive elite in the United States – those that feel solidarity with the highly indebted countries and particularly with Latin America. It is quite clear to almost everyone in the United States, especially to the American government as the Brady Plan demonstrates, and it became quite clear at this conference, that the reduction of the Latin American debt is a condition for the resumption of growth with price stability. After such reduction, the debt should not be more than 30 to 40 percent of its present level. Thomas Trebat's article, with his concept of a "sustainable level of debt" was quite clear on this point.

The progressive elite in the United States has been relatively active in proposing debt forgiveness. Economists, politicians, journalists, intellectuals, union leaders, religious leaders, and also bankers have made clear and some times detailed proposals in this direction. Even before Latin Americans thought of the possibility of debt reduction, some Americans were taking the initiative in this direction. I well remember how surprised I was and how much I learned from Americans about these proposals when I first visited the US Congress in July 1987.

The fact is, however, that proposals did not materialize. The global solution to the debt crisis, with the creation of an International Debt Facility jointly controlled by the IMF and the World Bank remained a project – a project without perspectives of being transformed into reality. The limit was the Brady Plan – a well-intentioned, but clearly insufficient, plan to solve the problem.

As no solution was found, as the "new money" arrangements promoted by the banks and time Treasury proved ineffective, arrears became a widespread "solution." Actually, a non-solution. The debt overhang remains, provoking negative expectations on the part of businessmen and, thus, influencing in a perverse way their investment and pricing decisions.

Given these facts, it becomes increasingly clear that the unilateral or quasi-unilateral decision of debtor countries to reduce their debt is the only possible solution for dc debt crisis. It is the only strategy that will lead to the necessary reduction of the debt to around 40 percent of its present level in a reasonably short time.

This means that the initiative should be taken by the governments of the debtor countries. And here lies the problem. Are the elite in the creditor countries, and particularly in the United States, ready to accept this?

The role of the progressive elite in the United States convinced that a substantial debt reduction is necessary, should be to support these moves. Instead of proposing a solution, they should back the solution adopted by the debtors. Instead of taking the initiative, they should be in favor of the sensible initiatives of Brazil, Argentina, Venezuela, and Mexico. These initiatives combined strong internal fiscal adjustment with a quasi-unilateral debt reduction.

Is this possible? Is the elite ready for that? Are they not too used to taking the initiative, to making the proposals to Latin Americans? When you are a citizen of the leading country of the world, it is probably difficult to have a supportive rather than an initiating role. This supportive role, however, is essential. It is essential to encourage governments in Latin America to assume their responsibilities. It is also essential to make these quasi-unilateral decisions non-confrontational ones.

In order to solve their foreign debt crises, Latin American countries must reduce their debt. It is almost impossible to stabilize and resume *growth* without taking this decision. But it is very important that the elite – the business elite and the intellectual elite in the creditor countries – be supportive, or at least understanding, of such moves.

If Latin American governments have the courage and the initiative to combine internal adjustment with quasi-unilateral debt reduction, it will become clear that the objective is not to confront the First World, but to create the conditions for becoming part of it. Costa Rica was the first country to do that. It obtained a debt reduction of more than 60 percent by saying quite clearly – and politely to the banks that it could not pay more. The US government finally accepted the argument – a quasi-unilateral argument backed by the facts – and the banks had no alternative but to also accept it. Diplomatically, the Costa Rican agreement was signed under the auspices of the Brady Plan. In fact, Costa Rica, with its firm position and American support, got much more than Mexico or Venezuela, where the Brady Plan was adopted. Costa Rica however is a small country. In order to achieve similar agreements, the larger countries will need stronger support than they have been receiving from the elite of the creditor countries.