# Latin America

## Economic and Social Transition to the Twenty-First Century

Enrique V. Iglesias

The 1993 Per Jacobsson Lecture

The Per Jacobsson Foundation

Washington, D. C.
Sunday, September 26, 1993

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# Foreword

The 1993 Per Jacobsson Lecture, entitled "Latin America: Economic and Social Transition to the Twenty-First Century," was delivered by Enrique V. Iglesias, President of the Inter-American Development Bank, in Washington, D.C., on Sunday, September 26, 1993. Sir Jeremy Morse, Chairman of the Per Jacobsson Foundation, presided over the meeting, the proceedings of which are presented in this publication.

The Per Jacobsson lectures are sponsored by the Per Jacobsson Foundation and are usually held annually. The Foundation was established in 1964 in honor of Per Jacobsson, the third Managing Director of the International Monetary Fund, to promote informed international discussion of current problems in the field of monetary affairs.

The lectures are published in English, French, and Spanish and are distributed by the Foundation free of charge. Through the courtesy of other institutions, other language versions are also issued from time to time. Further information may be obtained from the Secretary of the Foundation.

# Contents

# Opening Remarks

**Sir Jeremy Morse**

Good afternoon, ladies and gentlemen, and welcome once again to this very large audience for the 1993 Per Jacobsson Lecture.

Last year, you remember, we had a very dramatic moment in Europe and our lecture was about Europe. This year we are going to focus on Latin America. I suppose it is not a part of the world that is strange to this meeting. It has preoccupied many of our gatherings—first as a case study in high inflation, and later on, as we commercial bankers knew, in connection with the debt crisis.

But happily, things have been much better, both overall and in most of the countries of Latin America in the last phase, and happily, also, we have today as our lecturer one of Latin America's most famous sons, Enrique Iglesias.

You have his biography in the program, so I am not going through it. But it is a remarkable story, and you will see how well it fits him to talk on the subject. He has seen Latin America both from the inside and very much from the outside, particularly from where he works in his present job as President of the Inter-American Development Bank.

In the usual way, after the lecture, which will last about forty minutes, we will have the question and answer session. For those who have not been here before: if you want to put in a written question, you tear off the back sheet of the program. However, I would also particularly encourage direct questions from the floor, and we will have roving microphones for that purpose. Then, depending on the question and answer session, we will wrap up the proceedings sometime towards 4:30 p.m.

I think that is sufficient introduction, so Enrique, would you kindly give us your lecture.

# Latin America: Economic and Social Transition to the Twenty-First Century

**Enrique V. Iglesias**

It is a high honor and a very great pleasure for me to address this prestigious forum of ministers of finance, central bank governors, private banking officials, and eminent figures from international financial and academic circles. In particular, I should like to express my appreciation for the generous words of welcome I have received, and to thank Sir Jeremy Morse, Chairman of the Per Jacobsson Foundation, for kindly inviting me here today.

## I. Introduction

My remarks have to do with the economic, political, and social changes that have swept Latin America in recent decades. Within the setting of the global economy in the twenty-first century, those changes will forge a place for Latin America as a revitalized and forward-looking region possessing the political and social determination to take up the formidable challenges imposed by these new times.

It seems only fitting that I should preface my remarks today by recalling some of the highlights in the life of Per Jacobsson, the distinguished figure in whose honor these lectures are given. Throughout his legendary career, spanning forty-five years of intense activity as an international public servant, it fell to Per Jacobsson to live and work in a time of major upsets and profound economic, financial, and political changes that more than once altered the course of world history in this century. I should like, very briefly, to note a few of his own reflections on that experience.

In light of the monumental economic and political events he saw in his lifetime—the First World War, the restoration of the gold standard between 1919 and 1923, the collapse of the New York stock exchange in October 1929, the Second World War, the economic reconstruction of Europe, and the golden age of world economic growth and stability that held sway until the early 1970s—Per Jacobsson drew a series of conclusions (see Jacobsson (1958):

(1) In economic matters, he said, one should always be prepared for the unexpected, and maintain flexible attitudes and policies in the face of constantly evolving realities.

(2) He saw the depression of the 1930s as the great watershed in modern economic thought. This was anticipated by Keynes in his famous Berlin lecture in 1926, which laid the philosophical groundwork for according the government a leading role in economic affairs, in place of the automatic operation of the gold standard. Although the period following the Second World War saw vigorous and relatively stable economic and social progress, thanks to the application of the new economic policies, widening balance of payments gaps arose in many countries, as phenomena alien to the reality in which Keynes came up with his General Theory.

Jacobsson noted in this regard that the validity of a theory must be judged in light of the circumstances that had prompted it, and that the failure to distinguish between conditions prevailing in differing situations could lead to ill-advised policies.

(3) The Great Depression aroused a strong sense of social responsibility. This shift in attitude was particularly pronounced in the United States, where the notion of the welfare state was intrinsic to the New Deal.

In any case, the fundamental problem to this day is how to find a balance in simultaneously achieving the social security and other aims—at times opposing ones—intrinsic to the functioning of a market economy.

(4) Finally, perhaps one of Jacobsson's most penetrating reflections was the notion that the Great Depression and the Second World War were experiences that ultimately led to a growing recognition of the advantages of the market economy.

In short, not only was Per Jacobsson a central figure in many of the economic events that occurred throughout close to half of this century, but he also kept alive an open and reflective spirit in meeting new challenges with an objective and far-sighted vision, leaving an invaluable legacy to guide our economic policy decisions.

## II. ECONOMIC, FINANCIAL, AND POLITICAL CHANGES IN THE WORLD IN THE LATE TWENTIETH CENTURY

Before turning to the transformation under way in Latin America, I should like to share a few thoughts with you on the international backdrop, which has an undeniable influence on our regional realities.

It is customary these days to mention the widespread and deep-seated economic and political changes that are altering the face of the world and taking us toward the twenty-first century with a sense of embarking upon an adventure, filled with great expectations and uncertainties. Like Jacobsson, I am enormously struck by the extent of many of these changes.

However, I should not like our own personal involvement in, and closeness to, these events to mislead us as to their true extent. Perhaps a review of history will help us place them in the proper perspective.

Two hundred years ago, Europe was faced with an extraordinary process of change. The revolutionary wave unleashed in France in 1789 spread to neighboring countries, toppling established regimes and opening the way for more representative systems. These social upsets had deep roots. Among them were the mounting effects on cities of rural underemployment, which engendered a floating population of tens of thousands of unemployed and floods of migrants.

One factor underlying those trends was the "late eighteenth-century surge in population," as Kennedy (1993) called it, and its presumed disproportion to available resources, which sparked the famous *Essay on Population* by Malthus in 1798. Population growth in England and Wales picked up from just under 0.4 percent yearly in the 1750s to about 1 percent in the last decade of the eighteenth century.

Despite the passage of time, those factors—demographic pressures on resources, migrations and social instability, technological potential and its implications for productivity, and the volume and composition of production and employment—remain essential elements of the changes taking place in the world today. The contrast would appear to stem primarily from the severity of the problems, rather than from any difference in the fundamental nature of the central problems of mankind.

## *The Globalization of Production and Finance*

Globalization in production and finance is, without question, one of the phenomena having the most far-reaching implications for the world. It has spread rapidly in recent decades and now permeates not just our modern economic systems but also our political and social structures. This phenomenon has resulted in greater and deeper interdependence between countries and their economies. The transnational corporations have been effective agents of integration, and have long been recognized as such.

What is there that is really new in the development of the transnational corporation of today? Perhaps the main distinctive feature is the extraordinarily rapid multiplication and diversification of transnational corporations, the wide range in their lines of activity and their countries of origin and operation, and the impressive expansion in their flows of direct investment and international sales during the 1970s and 1980s. But a very important qualitative change has also taken place in the corporation as we knew it up until the 1950s, transforming it into a leading actor on a truly global economic stage.

A recent study by the United Nations Commission on Trade and Development (1993) found that:

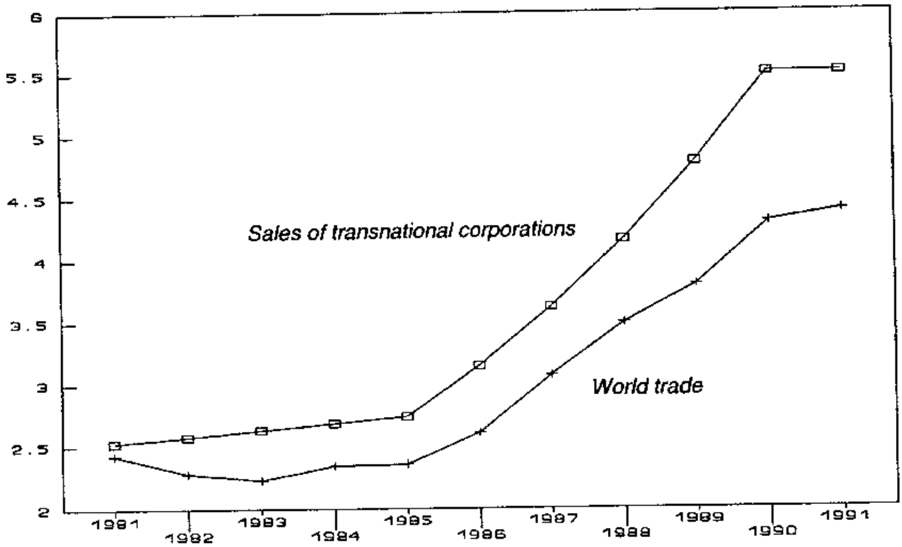
(1) In 1990, sales generated by transnational corporations outside their countries of origin came to about US$5.5 trillion, about 40 percent more than the value of world exports of goods and commercial services. This compares with relative parity between the two figures at the beginning of the 1980s (Figure 1).

(2) The pace of growth in foreign direct investment picked up strongly from the first half to the second half of the 1980s, from 4 percent to 24 percent a year, appreciably outstripping world trade and reaching a total of US$180 billion in 1991. It is estimated that about one third of the world's privately held production assets are controlled by transnational corporations.

(3) The growing weight of transnational corporations in the global economy is also illustrated by the scale and diversity of their activities. It is estimated that in the world today there are about 37,000 transnational corporations, with about 175,000 branches. Of these firms, 90 percent have their head offices in the industrial countries, and more than half of those are in France, Germany, Japan, the United Kingdom, and the United States. Only 9 percent

**Figure 1. Sales of Transnational Corporations and World Trade in Goods and Commercial Services**

*(Trillion U.S. dollars)*




Source: See Statistical Appendix, Table 1.

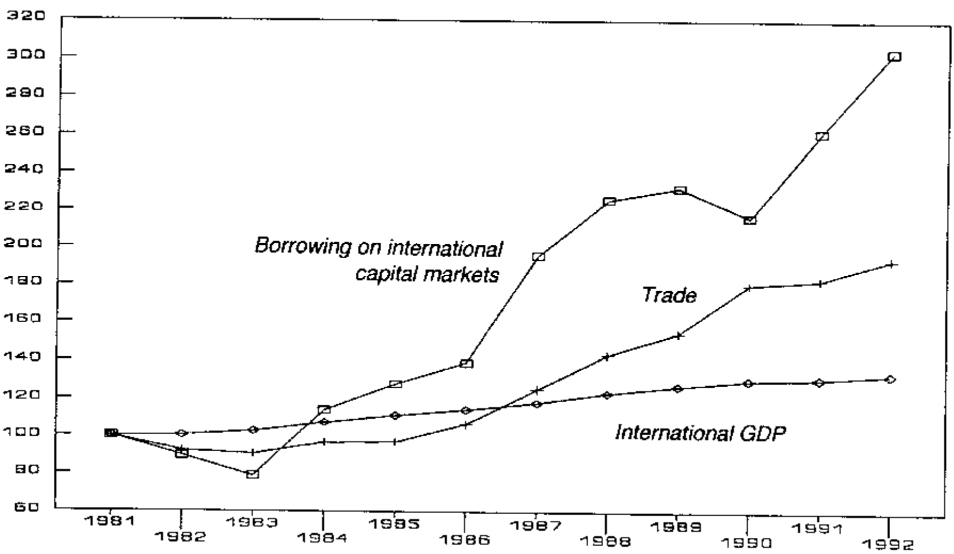
of them are based in developing countries. About 60 percent of the transnational corporations with their offices in the United States and Japan are involved chiefly in manufacturing, 37 percent in services, and only 3 percent in the primary sector.

The traditional transnational corporation, national in identity and worldwide in scope, is now being replaced by organizational and production structures that are increasingly responsive to the new conditions prevailing. Those conditions are typical of a global economy that transcends geopolitical and cultural borders and blithely defies the concepts of nation, government, and sovereignty, so deeply rooted at the end of the last century and through to the middle of the present one. According to Reich (1991), in the new, web-like organization of modern business there are no longer any corporations or end-products that can be identified with a single flag.

There is a broad consensus that the continued globalization of production and markets will make it possible to improve production structures and boost efficiency and to revitalize the engines of the late twentieth-century capitalist economy.

**Figure 2. Borrowing on International Capital Markets, World Trade, and Production**

*(1981 = 100)*




Source: See Statistical Appendix, Table 2.

The other major phenomenon that has fueled the extraordinary advance of economic internationalization is the globalization of financial markets.

This has engendered an unprecedented burgeoning in the overall volume of financial flows mobilized from world capital markets, together with an equally significant change in their composition. Borrowings on international capital markets posted a 203 percent cumulative increase between 1981 and 1992, about 60 percent more than the increase in world trade and 130 percent more than the increase in the production of goods and services during the same period (Figure 2).

In parallel to the burgeoning international financial activity of recent years, foreign exchange markets have also grown substantially in size and complexity. The value of financial assets held by residents of the United States, Japan, and Europe totaled US$2,500 billion in 1992. The volume of foreign exchange transactions has tripled since the mid-1980s, and they are estimated to reach about US$900 billion each day. The spectacular magnitude of these figures and the developments they reflect pose formidable new challenges to monetary authorities.

These developments hold out an opportunity to improve the global allocation of resources, but also introduce the risk of fueling speculation, which has the effect of amplifying and reinforcing shortcomings in fundamental economic conditions, as demonstrated by events on foreign exchange markets in 1992. Along with the lack of convergence in performance by the European economies, speculation contributed to shattering the exchange stability of the European Monetary System that had prevailed since 1987. This came about just as prospects seemed promising for its consolidation with the conclusion of the Maastricht Treaty of December 1991, as indicated by the Group of Ten in their statement of April 1993 (see Communiqué of the Group of Ten (1993)).

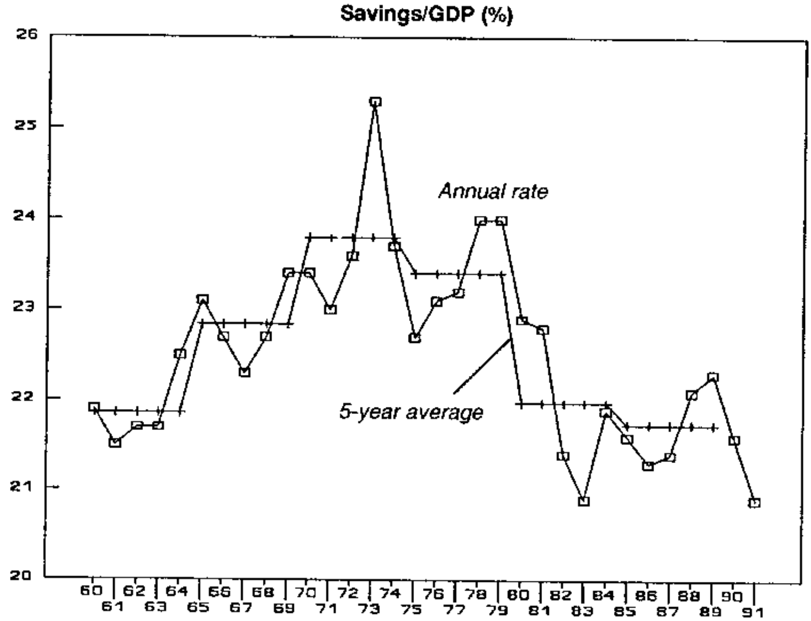
Like any process of change, this one entails both benefits and hazards. First, the new conditions have generated increased competition between financial agents and entities, which reduces the costs of intermediation but also eliminates the entities that are least efficient, in a kind of "creative destruction" as described by Schumpeter, and hence may make life more hazardous for sizable segments of the financial system. Second, growth in international financial flows has appreciably outpaced growth in the real economy and trade, which suggests the possibility of excess liquidity that could impair the stability of exchange parities and the efficiency of price systems. Third, the increasing overlap in terms of functions and instruments between banks and other financial entities raises complex questions for the conduct of monetary policy, such as the very definition of money, and the tasks of market regulation and supervision by the appropriate national authorities.

## *Savings and Macroeconomic Disequilibria on a Global Scale*

In this same connection, a fundamental question that has been of concern to the international financial community in recent years, particularly the Bretton Woods institutions, has to do with the availability of savings and the ability of financial markets to channel them into investments that are more productive internationally. This is unquestionably an area in which we have experienced one of the more momentous changes of our times, with the appreciable decline in average savings in the industrial countries—particularly acute in the 1980s—and the conversion of some of the centrally

**Figure 3. OECD Countries: Savings, External Balance, and Government Financial Balance**

*(Percentage of GDP)*



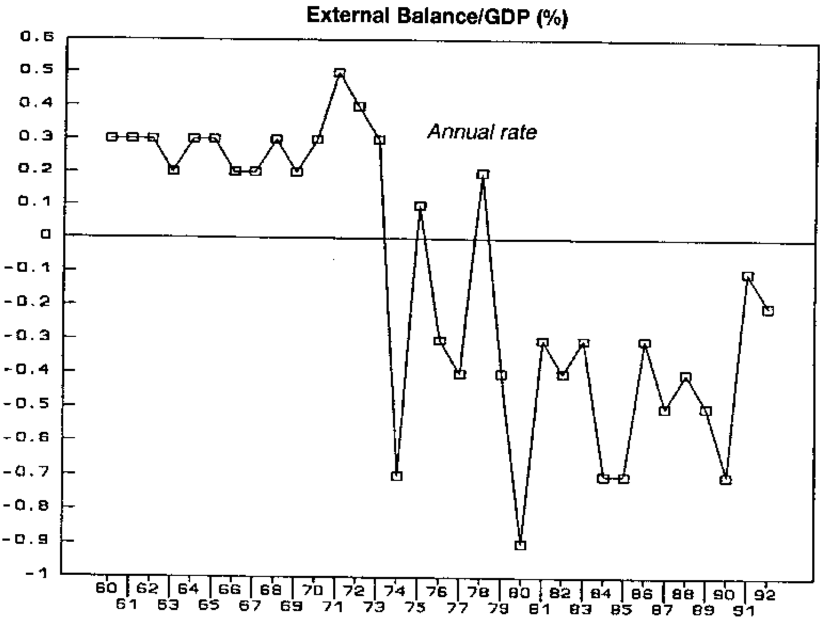
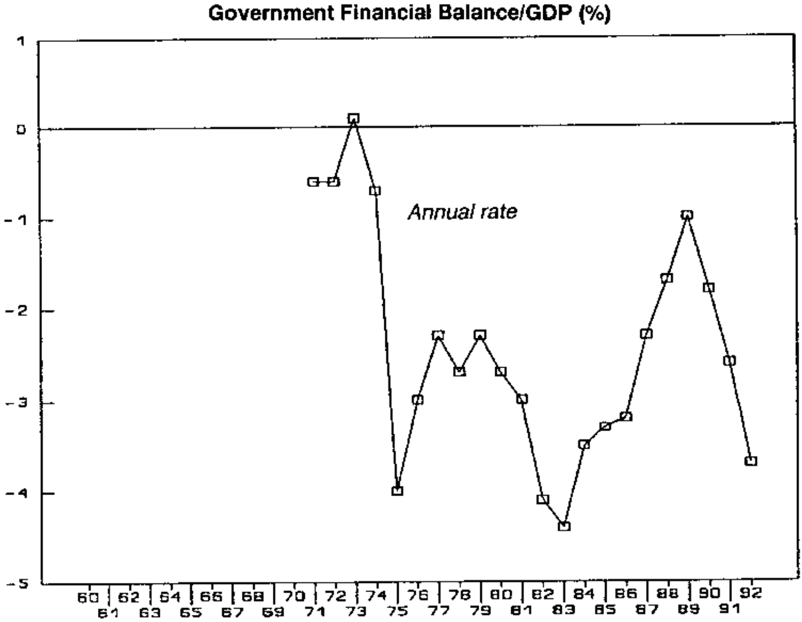



**Figure 3 *(continued)***




Source: See Statistical Appendix, Table 3.

planned economies from net creditor to net debtor nations vis-à-vis the world economy as a whole.

For the member countries of the Organization for Economic Cooperation and Development (OECD) combined, over the past ten years the average rate of national savings as a percentage of GDP has fallen to 21.5 percent from 22.4 percent in the 1960s and 23.6 percent in the 1970s[1] (Figure 3). The drop has been largest in some of the industrial countries that had attained the relatively highest average savings rates in the 1960s (Germany, France, and Italy) and in the seven largest economies excluding Japan.

Among the reasons for the decline in savings rates in the industrial countries are two factors with significant impact that have evolved over long periods of time. One is the gradual rise in the longevity of the population, a trend that is especially marked in the European countries. The second factor is a widespread uptrend

[1]See Organization for Economic Cooperation and Development (1982, 1990, and 1993b).

in public expenditure coupled with persistent and in many instances growing fiscal deficits.

## *Major Fiscal and Trade Imbalances*

Tax revenues have not always kept pace with the growth of public expenditure, giving rise to enormous financial deficits that have persisted over time, especially in the last ten years, when they averaged about 2.9 percent of GDP for the OECD countries combined, compared with 0.5 percent in 1971–74. To be sure, the public sector deficit of many industrial countries has not only resulted in a debt buildup of unprecedented magnitude in both absolute and relative terms, but has also absorbed an increasing share of private savings and in turn has generated an acute payments imbalance on current account, reducing traditionally creditor countries to net debtors of the world economic system.

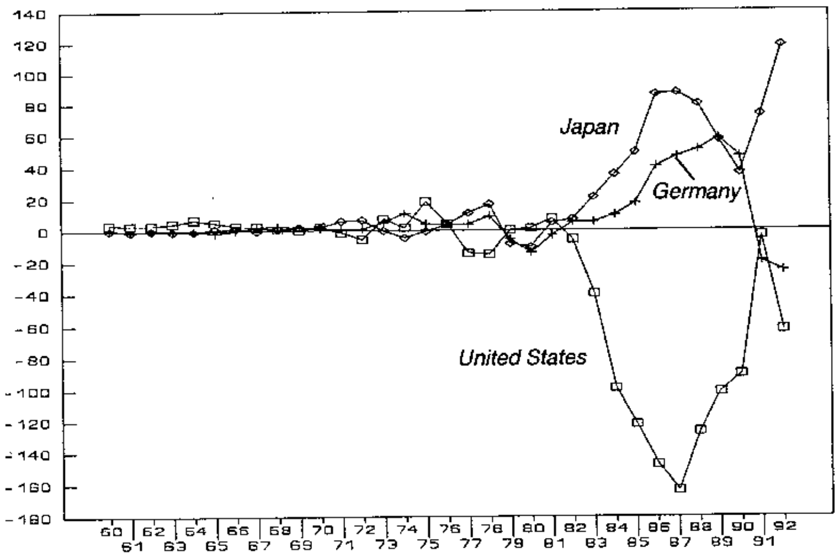
Perhaps the most pronounced change of the 1980s took place in the economy of the United States, which has been laboring under the heaviest fiscal and balance of payments deficits and has evolved over a long period of time from the world's leading creditor nation into its largest debtor (see Bergsten (1988)). Its international weight remains decisive, however. As a factor underlying the external deficit, the country has been plagued by a fiscal deficit that rose from less than 2 percent of GDP in 1979 to more than 6 percent in 1983, from which it then receded in the following years to 4.7 percent in 1992,[2] with the ensuing adverse macroeconomic effects, such as a substantial drain on private savings, persistent pressure on real interest rates, and a latent threat of renewed inflation.

The large budgetary and foreign trade deficits posted since 1982 by the key countries in the world economy—the United States, Germany, and Japan—mark a momentous shift from the relatively stable trends of the previous thirty years, one that will have a decisive influence on developments in and the outlook for the world monetary system, trade, and economic activity.

So far it has been possible to offset these deficits through a symbiosis between the three economies, and the application of diametrically opposed policies. This has made it possible for

[2]See International Monetary Fund (1992a and 1993a) and Organization for Economic Cooperation and Development (1982, 1990, and 1993b).

**Figure 4. Balance of Payments Position on Current Account: Germany, Japan, and the United States**
*(Billion U.S. dollars)*




Source: See Statistical Appendix, Table 4.

96 percent of the U.S. payments deficit on current account, built up from 1982 to 1992 and totaling US$963 billion, to be counterbalanced by the combined surpluses of Japan and Germany (those of the latter country only from 1982 to 1990) during the same period. In the wake of unification, however, in the last two years Germany, too, has slipped into a position of rising payments deficits on current account (Figure 4). From the economic policy standpoint, these deficits pose very worrisome questions. In particular, they raise the specter of new protectionist pressures and of tensions building up throughout the international monetary system, which are exacerbated when deficits are prolonged or increased.

To the absorption of international savings on a massive scale by these two countries we must now add not only an increased demand for external resources on the part of developing countries engaged in ambitious, far-reaching programs of economic and institutional reforms, but also the entire range of external financing requirements opened up by the transformation of production and modernization of the economies of Eastern Europe and the former Soviet Union now in transition from central planning to the free market. There are, however, two potential sources on which the world may draw as the twentieth century comes to a close.

### *Potential Sources of Savings and Trends in Production*

One of these sources is an expansion in the production of goods and services, made possible by the conversion to civilian use of the military production capabilities freed up by the end of the cold war: the peace dividend. The second lies in the combined effect of economic recovery in the OECD industrial countries and utilization of potential production volumes generated by technological progress and improved productivity internationally. In other words, mankind faces new demands for resources on a scale without historical precedent, but also possesses an increased production capacity such as the world has never seen before.

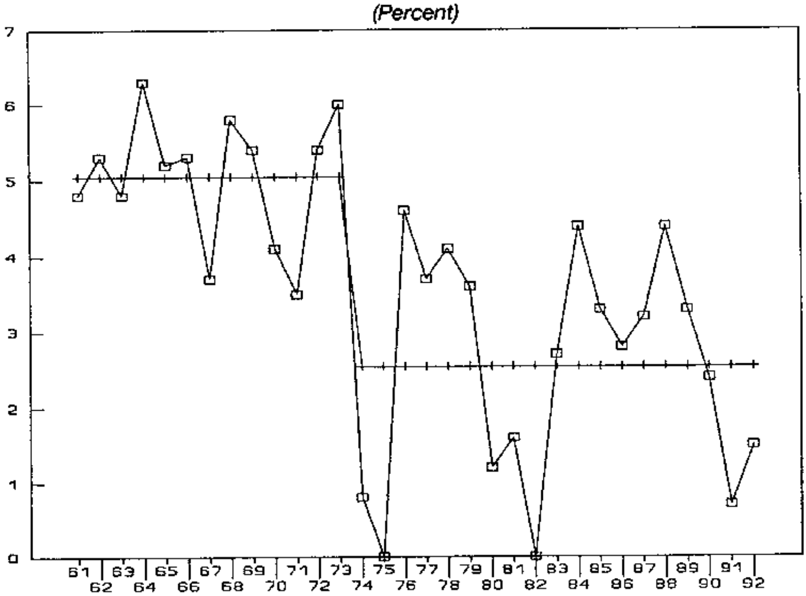
Nevertheless, the turn taken by trends in production in the industrial countries just twenty years ago and their persistence down to the present raise fundamental questions about the economic prospects not just of these countries, but of world trade and the developing countries as well. The vigorous and relatively stable economic growth that followed the end of the Second World War—recognized as the golden age of world economic prosperity—was reined in sharply by the first unusually steep increase in oil prices. The possibility of recovering from this reverse in the short run appears slim since, in face of prevailing substantial monetary disequilibria, the paradigms of economic policy continue to give preference to stability over development.

Ten years ago Colin Clark asked, "Is the slowing down of world production and trade in the past decade just the consequence of a series of temporary mishaps, whose effects can be rectified—or is the world under the influence of a long cycle, whose effects will still be with us for many years into the future?"[3] The average rate of growth in GDP in the OECD countries (Figure 5) declined by half between 1961-73 and 1974-92 (from 5 percent to 2.5 percent a year, respectively), and the instability of economic activity

[3]See Clark (1984), p. 307.

**Figure 5. OECD Countries: Annual Rate of Change in GDP**

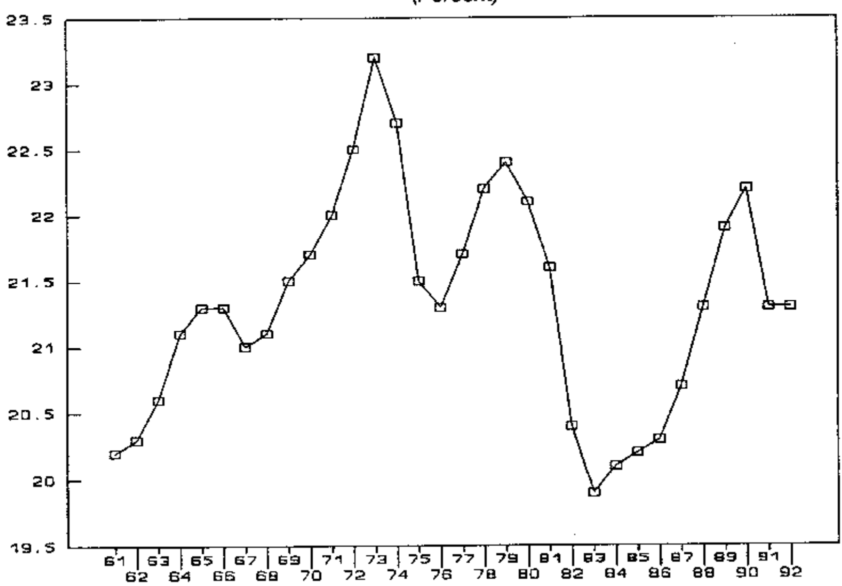
*(Percent)*




Source: See Statistical Appendix, Table 5.

**Figure 6. OECD Countries: Ratio of Gross Fixed Capital Formation to GDP**

*(Percent)*




Source: See Statistical Appendix, Table 5.

increased twofold. While the causes of this weakening of economic activity are many, one of the most important is a distinct trend of correlative decline in fixed capital formation as a percentage of GDP, from a peak of 23 percent in 1973–74 to 21 percent in 1991–92, in sharp contrast to its uptrend from 1961 to 1973 (Figure 6).

So it is that the statistical record confirms ten years later both that question and the idea put forward by Clark: "It appears that the industrial world, since 1970, has entered a period of slowing down of the rate of investment, with consequent effects on international trade, industrial production and employment, and the terms of trade for primary products. Private investment is slowing down because of the stock of past investment, and this situation cannot be significantly altered, by low interest rates or in any other way. But public investment should be increased, within reasonable limits."[4]

Thus, the great challenge facing the international community, and especially the more advanced industrial countries, is to mobilize the resources implicit in that greater production potential. This would make it possible to redress the great fiscal and trade imbalances, reverse the decline in savings, and restore the traditional pattern of capital flows from the more advanced industrial countries to the developing countries. This is, without any question, a herculean task, but also one that is forced upon us by considerations of optimization and economic efficiency, as well as by fundamental imperatives inherent in Western culture and political life.

## III. LATIN AMERICA: TRENDS IN DEVELOPMENT AND THE REGION'S INTERNATIONAL ECONOMIC POSITION

I should like now to turn to the main thrust of my remarks here today. This meeting offers a splendid opportunity to examine the economic experiences of Latin America, its search for a new place within the changing world in which we live, and the challenges it faces in its determined struggle to overcome underdevelopment and poverty and make the transition to the next century and the third millennium as a revitalized, progressive, and modern region.

The economic crisis that beset the countries of Latin America during the 1980s not only represented a setback in terms of long-

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[4]See Clark (1984), p. 318.

range development but also brought about a significant erosion of the region's share in international trade and capital flows. Faced with a bleak economic outlook and the external conditions then prevailing, most of the countries undertook to apply structural reforms. Their goal in doing so was to bring down inflation, open up their economies to outside competition, deregulate markets, and curtail the sphere of action of the public sector.

In some cases preliminary progress has been very significant, whereas in others it is too soon to obtain a clear picture of results. Although the experiences of the various countries are quite varied, it has become clear that the adjustment process is a truly complex and lengthy one, and one that requires much political will and social sacrifice, along with a critical measure of external cooperation.

In these early years of the 1990s, it is appropriate that we should reflect on the internal and external factors influencing that adjustment process, and on what is needed to recover and enhance Latin America's position within the world economy. The challenge is a formidable one, but one that must be taken on with great conviction, determination, and urgency. This is particularly true now that a vital part of the world economic system—the General Agreement on Tariffs and Trade—is facing a test that will determine its continued existence, with the ensuant uncertainty about the prospects for the future of international trade.

Among the various issues affected by the reforms under way, Latin America's international economic position occupies a particularly important place. This is a crucial area in which the region will need to apply a major effort if it is to make the transition to a modern pattern of development that is sustainable over the long term.

## *Economic Development in Latin America in the Postwar Period: Accomplishments and Crisis*

Economic and social development in postwar Latin America was attuned to the predominant economic philosophy of the time, inspired by the success of the New Deal in the United States and the Keynesian pattern which Per Jacobsson identified as the watershed of modern economic thought. Fundamental premises included a recognition of the crucial role played by capital and the importance of assimilating modern technology. Also recognized, specifically in Latin America, was the adverse impact of declining relative prices for commodity exports in an international economic framework marked by a lack of symmetry between the center, dominated by the industrial countries, and the developing countries on the periphery.

The predominant economic rationale was a response to the imperatives of a global situation which—in the wake of the crisis of the 1930s and the havoc wreaked on international trade and finance by the Second World War—imposed the need for a kind of development that would be driven by domestic markets and take full advantage of each country's resource potential.

As a reflection of this conception and in response to these international conditions, economic policy favored leadership by the state as the agent responsible for economic and social development and for managing a sizable proportion of the productive resources. This model encouraged industrialization based on import substitution as a way of expanding and diversifying production that would assimilate technical progress, create jobs and investment incentives, and make it possible to meet rising domestic demand within strict balance of payments constraints aggravated by the protectionist policies in place worldwide.

On balance, that historical experience led to both accomplishments and frustrations. There is no question that many, if not all, of the Latin American countries achieved significant improvements in economic and social conditions. The 1960s and 1970s provide ample proof of this. The rate of growth in GDP for Latin America as a whole rose from an average 5.1 percent per annum in 1951-60[5] to 5.7 percent in 1961-70 and 5.8 percent in 1971-80 (Figure 7). Economic performance in the countries of Latin America not only picked up considerably during the postwar period, posting growth rates that until 1980 frequently topped 6 percent per annum, but also outstripped growth in the vast majority of OECD and Asian countries. Only five economies (Germany, Japan, the Republic of Korea, Taiwan Province of China, and Thailand) bettered the growth rate recorded by Latin America between 1950 and 1973, according to calculations by Maddison (1989).

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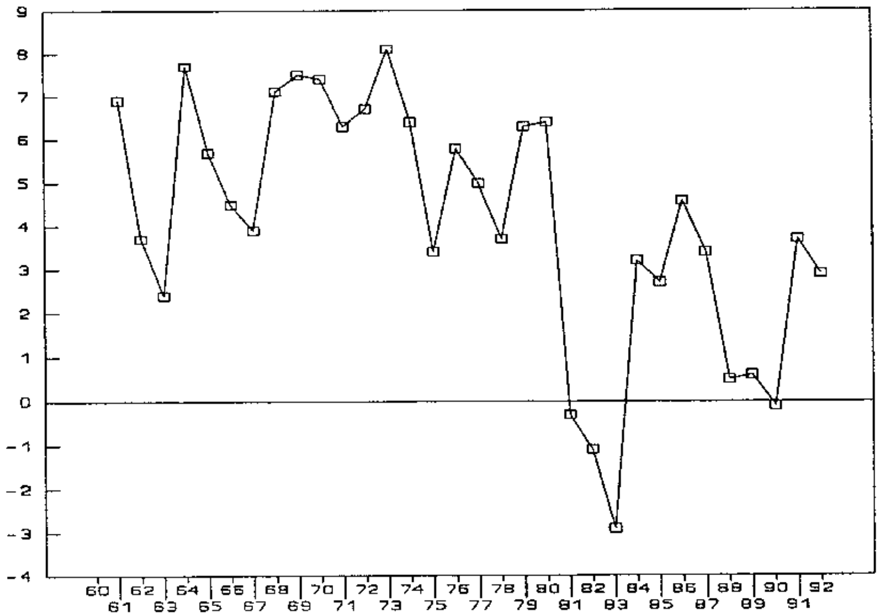
[5]See United Nations, Economic Commission for Latin America and the Caribbean (1979).

**Figure 7. Latin America: Annual Rate of Growth of Gross Domestic Product**
*(Percent)*




Source: See Statistical Appendix, Table 6.

As a result of those trends, the overall volume of goods and services produced by the Latin American economies has increased nearly fivefold over the past thirty years. The proportion of output originating in the manufacturing sector has risen steadily, from 18.8 percent in 1950, to 21 percent in 1960, 23 percent in 1970, and 24 percent in 1980.

Momentous changes have taken place in Latin America on the social front as well.

The overall backdrop was one of rapid demographic growth, from 155 million inhabitants in 1950 to nearly 350 million in 1980, for a rate of increase of 2.9 percent per annum in the 1950s, 2.8 percent in the 1960s, and 2.2 percent in the 1970s. Latin America was the world's fastest growing region, posting an increase of three times the average rate of population growth in the OECD countries and more than half a percentage point higher than the average for Asia (Maddison (1989)). We would contrast this fact with the demographic surge in England in the late eighteenth century, noted by Paul Kennedy, which translated into a yearly increase in population of 1 percent toward the end of the period. Significant demand arose for social services in Latin America as the population grew, principally for education, health, housing, and environmental sanitation.

In tandem with demographic growth and industrialization, Latin America experienced one of the most intense processes of urban concentration seen anywhere in the world. The number of city dwellers as a percentage of the total population rose from 40 percent in 1950 to 65 percent in 1980 with the rise of the metropolises of Mexico City, São Paulo, Rio de Janeiro, Buenos Aires, Caracas, Lima, and Santiago.

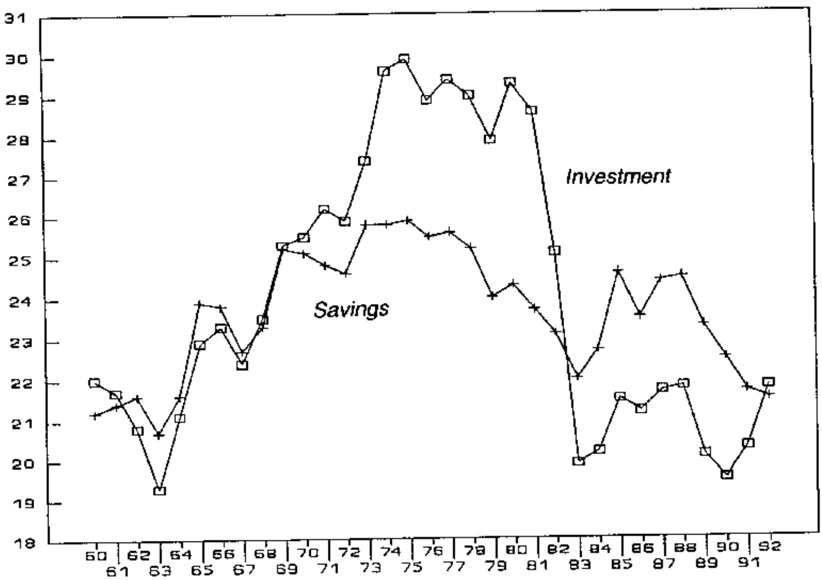
Certain major indicators of social development in the region showed very significant progress, such as the increase in average life expectancy from 52 years in 1950–55 to 65 years in the early 1980s, a reduction in infant mortality from 128 to 77 for every 1,000 live births, and a reduction in illiteracy from 44 percent to 23 perent of the population aged 15 and over. A decline was also recorded in critical poverty, for which statistics have been available only in recent years, so that the proportion of critically poor households fell from 40 percent to 35 percent between 1970 and 1980.

The Latin American countries made striking institutional advances, reorganizing and creating central banks, bank examiners, public development banks, savings and loan systems for housing, and other financial institutions. This occurred in response to new guidelines and practices in monetary and financial management applied in the wake of the crisis of the 1930s and the need to mobilize increasing amounts of savings to fund ambitious investment programs.

Most of the countries created national planning systems, modern institutions of higher learning, and national science and technology systems, and also reformed their tax systems. This institution-building process contributed not only to improving economic systems, in close conjunction with the role accorded to the state by development strategies, but also to modernizing the countries overall.

In the context of Latin American postwar development, capital formation was one of the main mechanisms that drove and sustained growth, as well as changes in production and technology (Figure 8). The stock of industrial equipment, the communications

**Figure 8. Latin America: Investment and Savings as Components of GDP**
*(Percent)*




Source: See Statistical Appendix, Table 7.

and transportation networks, electric power generating capacity, the farming and mining frontiers, and housing, hospitals, clinics, and schools were expanded and modernized. One statistical indicator that exemplifies much of that effort is the share of GDP spent on investment, which rose gradually and steadily from an average of 17.7 percent in 1950 to 29 percent in 1980 (Figure 8). Another significant portion was spent on human capital formation, particularly in the fields of health and education, which are areas in which the region made great strides during those years but are not fully reflected in figures on investment spending.

## *The Crisis of the Postwar Growth Model*

Symptoms of a deep-seated crisis in strategy became apparent at the beginning of the 1970s.

The basic objective of the strategy—to substitute imports efficiently and to increase and diversify exports—was not attained.

The areas in which imports could be substituted efficiently had already been tapped, and continuing to pursue that objective depressed export capacity. The external financing gap widened owing to changes in the makeup of imports. Imports of consumer goods dropped, but the size and share of equipment and capital goods rose.

The region lost considerable ground in its ability to compete internationally, as can be seen in the drop in its exports from 12 percent in the 1950s to just 4 percent by the start of the 1980s. Unfortunately, this occurred in a context of unprecedented growth in international trade, which left Latin America standing in sharp contrast to the industrial world and the newly industrializing countries, particularly in Southeast Asia.

The social objectives included in the strategy led to populist measures geared to a nominal redistribution of income, which contributed to inflation and benefited the middle and upper classes, to the detriment of the vast majority.

With a few exceptions, the chronic economic imbalances caused by those policies were not tackled head on by applying sound macroeconomic policies or establishing adequate fiscal systems. As a result, the development process was mortgaged and the tax of inflation aggravated unequal income distribution patterns.

The accumulation of responsibilities in the hands of governments, swollen and inflexible public administration, inefficient public sector companies, uncompetitive manufacturers, and inelastic tax systems led, along with other factors, to a growing tolerance of fiscal imbalances and inflation, which eroded the capacity of governments to direct economic development and build on contributions by the private sector and community organizations.

These contradictions built up and fed into each other in the 1970s, and only external borrowing at the end of that decade and growing inflation during it were able to stave off the day of reckoning.

## *The Revision of Latin American Development Strategies*

The moment of truth arrived at the start of the 1980s, and since then three main factors have inspired a sweeping review of the earlier economic strategies.

(1) A transformed international arena in every respect.

(2) The painful lessons of the lost decade of the 1980s, which had been undermined by the heavy debt burden, shrinking external credit for the countries of the region, and the inescapable application of adjustment policies.

(3) The collapse of the planned economies and the success of economic experiments in Asia.

Thus, during the lost decade of the 1980s, the contradictions implicit in the traditional development strategy began to come to a head. External indebtedness at the end of the 1970s and the early 1980s was one of the factors that led to the strategy's demise.

In the mid-1970s Latin America opted to cushion the recessive impact of the international context by turning to world capital markets that had just experienced a rebirth, for reasons that are widely known. The option of maintaining growth by calling on private external credit meant that the countries built up a large foreign debt. The first repayment difficulties became apparent in 1982. After that, and coinciding with one of the largest declines in the terms of trade for the region's exports, Latin America was caught in a scissors effect as external capital dried up and interest rates soared on the debt it had already incurred.

The region was severely afflicted by the weight of its debt service, sharply reduced inflows of new external resources, capital flight, shrinking imports, the cutbacks in economic and social investment that accompanied the adjustment policies, the dismantling of assets built up with effort over the years, additional losses in international competitiveness, and a crisis in public institutions.

Between 1982 and 1990, the countries of the region transferred US$230 billion abroad, equivalent to 200 percent of the value of its exports and to 50 percent of the foreign debt it had accumulated up to the end of 1982. However, Latin America reacted with a deep sense of responsibility with regard to both its own long-term interests and those of the international financial community. Furthermore, the international financial community gradually eased its negotiating position on credit management, particularly with the Baker Plan and the Brady Plan. In general, Latin America handled its external debt problem playing by the rules of the game laid down by the international financial system, and, in turn, the system relaxed its rules somewhat to facilitate addressing the problem.

History has shown that tackling the problem was very costly for the region, but that this had to be done if the countries were to put their house in order. It permitted the region to frame a new view of development that transcended the debt problem over the medium and long terms. We can all lay claim to the wisdom of hindsight, and it is easy and perhaps unfair to criticize the strategy followed by the creditor and debtor countries in renegotiating the foreign debt of the Latin American countries. But its effectiveness has been demonstrated by the fact that many of the countries have returned to voluntary capital markets, and since 1991 the region has once again been receiving positive net capital flows from those markets.

Finding a solution to the debt crisis also served as a successful test of cooperation between governments, creditor banks, and international agencies, which reduced the uncertainty that the process might have entailed and prevented the parties involved from sustaining lasting trauma.

In the long run, this relationship has helped the region to become fully aware of the nature of its problems, the need to return to the path of development, the need to make sweeping changes to its economic strategy, and its indissoluble ties to the international economic system.

Another background presence in the changes in the region's policies was the collapse of the socialist world, and, in general, the difficulties faced by other economic experiences grounded in a heavy government presence in economic management. In contrast to these experiences, in market-driven economies—with, of course, striking differences between countries—progress was made toward modernization, higher production, increased exports, and international competitiveness of their respective economies.

The case of the Southeast Asian countries, although social and political conditions there are very different from those in Latin America, provided a vivid example and source of motivation for trying out a new strategy. In the Latin American context, the success of the Chilean economic experience has had a visible influence on the region's political and economic leadership.

## *The Scope of Structural Change in Latin America*

The changes inaugurated in the region at the end of the 1980s operate on different levels and in different political, economic, and social areas.

One type of change is occurring in the political sphere. Democracy is returning to Latin America, putting an end to authoritarian regimes and re-establishing the rule of law and respect for human rights, and rebuilding participative forms of government and policymaking. The re-establishment of democracy is renewing political discourse in the countries of the region, as well as giving a fresh and broader impetus to their economic processes. The leaders of these countries have made a careful study of their own history and that of the rest of the world, and based on these lessons, have turned to less ideological, more realistic, and more efficient ways of managing their economies. This reaction is not limited to the political elite, but is also found among the new technical teams in governments, company executives, and community leaders, who are better prepared than before and have had more contact with different experiences.

The second sphere in which changes are taking place is in the ideas and attitudes regarding economic and social development strategies held by the economic and social actors and the general public alike. The role of the market as a tool for allocating resources, as a stimulus for innovation, and as a source of productivity and increased competition is beginning to be reassessed. The countries are distancing themselves from excessive government intervention, particularly when the state engages in production activities in which our production structure has come to perform with growing inefficiency over the years. Moreover, the private sector may have greater investment capacity and be able to manage these activities more efficiently.

The role of stability has also been reassessed, not simply because it creates a better investment climate and is a requisite for better allocation of productive resources, but also because it is a necessary condition for preventing the deepening of poverty. The preference of our societies for price stability becomes particularly apparent when hyperinflation threatens. Ideas and attitudes are also changing with respect to foreign investment, which is seen as playing an important role together with domestic capital in development promotion. This reassessment goes hand in hand with the new attitude toward the market and the role of the private sector.

The shift in attitude is also apparent in the steadily increasing range of players. The numbers of business leaders willing to tackle the challenges of launching new projects, making new investments, and opening up to international markets are rising steadily. Labor leaders are participating in companies and in collective bargaining in a more constructive manner, and even support privatization. Of course, these changes coexist with traditional attitudes and with the survival of interests from the past to which certain political, business, labor, and other groups who oppose the new trends cling with determination.

A third area of change, where the transformations in political thinking and attitudes I have just mentioned converge, involves the formulation of new economic policies in Latin America. Very briefly, it can be said that recent economic policy in almost all the countries has three main objectives.

(1) The search for price stability through macroeconomic balances attained by efficient markets and the formation of a price system in the play of forces in those markets.

(2) External openness in international trade, financing, investments, and technological innovation, both on the world scale and in the new types of integration and partnership that are arising in the region.

(3) The search for authentic modernization of the state and of public policies, that goes beyond downsizing, since the chief goal is to improve quality, the spirit of initiative, and efficiency. Governments are aware that they must become smaller, while not cutting back indiscriminately. More important, they must become more efficient, more entrepreneurial, and more catalytic. A reduction in the myriad of regulations and ex ante controls on many economic activities has facilitated market operations. Argentina offers a remarkable example of how regulations can be dismantled.

Other valuable experiences in this regard include administrative decentralization by delegating functions and resources from the central government to local governments, which have sometimes been enshrined in national constitutions. Argentina, Colombia, Chile, and Brazil furnish good examples of the changes in this area, including new forms of social or regional participation in development, and greater efficiency in public spending.

There have also been major changes in the execution of social policies and spending. Indiscriminate public spending for social purposes has gradually been abandoned, and greater efficiency has been achieved in managing and focusing this spending to reach the people who really need it. These are some of the main areas that have been the focus of the new changes.

## *The Early Results of the Process of Change*

It will undoubtedly take time to see the full results of the economic reforms. This is apparent from the experiences of countries such as Chile and the nations of Southeast Asia. However, certain gains are already apparent in domestic economies and in the rebuilding of international confidence.

On the domestic front, the greatest achievements can be seen in the fields of stability, production, and investment. After a period of sluggish growth and stagnation, since the start of this decade Latin America has returned to economic growth on the order of 3 percent yearly. The prospects for 1993 are even more promising. It is worth stressing that this recovery has taken place despite very adverse terms of trade. The prices received by the countries for their raw materials—metals, copper, cereal grains, wool, coffee, and oil—have plummeted by 30 percent to 50 percent. It is remarkable that the region has been able to absorb this alarming drop in the prices of its exports while still achieving higher growth rates. Capital formation, though still much below desirable levels, is also beginning to recover.

Stability has improved in general, except in the case of Brazil, which is about to launch a major stabilization program. Excluding Brazil, average inflation will drop to 19 percent in 1993, compared with 22 percent in 1992. Argentina, Mexico, and the Dominican Republic will see one-digit inflation in 1993.

The greatest progress has been made on the external front. External capital flows into the Latin American economies have been reactivated, and domestic capital that fled in the 1970s and 1980s is beginning to return. Furthermore, both governments and private companies have access to international capital markets, and direct foreign investment has increased—particularly owing to privatizations and outside investments in local financial markets. However, the deficit on the current account of the balance of payments has widened substantially as a consequence of slow growth in export earnings—which reflects the international recession and the decline in the terms of trade—and of the sharp jump in imports that has accompanied the development recovery. The accumulated 1992 and 1993 current account deficit is estimated at about US$72 billion. Over the same period, capital flows into the region reached US$100 billion, which is sufficient to compensate for the deficits and permit an additional increase in international reserves. Direct investments account for one third of this capital. Much of the rest is speculative capital and investments in response to interest rate differentials.

## *Challenges and Weak Points in Economic Reform in Latin America*

There are legitimate questions that can be asked regarding progress on economic reforms in Latin America. Has Latin America chosen the right path in designing its economic strategies? What are the weak points of these strategies, both those that operate internally in our societies and those that link us to the outside world, whose behavior is largely beyond the control of our countries? What are the challenges for policies intended to legitimize governments on the social, economic, and political planes and to ensure their irreversibility, taking these internal and external weaknesses into account? In my opinion, these are some of the crucial questions today.

I believe that the general thrust of the economic reforms is moving in the right direction. Regardless of the orientations or ideologies behind these policies, prudent administration of domestic resources, greater efficiency and competitiveness in the economy, support for the private and social sectors to ensure they play their allotted role in development, and effective integration into the international economy are, in the final analysis, the reference points for all efficient administrations.

It can be affirmed that, rather than representing an ideological concession, the options chosen by the region in recent years were steps in the direction of common sense. And this is why I believe that, broadly speaking, the reforms under way are on the right track.

However, there are internal weaknesses in current economic strategies that pose serious challenges to the framers of policies and to policy implementation. Without going into detail, I should like to mention three main fronts where the shortcomings of current strategies are most visible.

• The first is the need to enlarge the compass of economic reforms, to broaden and deepen the changes under way. As the Economic Commission for Latin America and the Caribbean has pointed out in its recent report on equity and production transformation,[6] improving the efficiency and competitiveness of an economy is a systemic endeavor that embraces the economic, political, and social spheres. Therefore, the first condition for economic transformation is the extent to which governments and the different social agents are capable of understanding the relationship between these different elements and managing them as a whole. If any link in this chain is weak, the climate necessary to increase domestic savings, attract foreign investment, launch good investment projects, and foster growth and economic competitiveness will deteriorate.

• The second is the continuing low level of domestic savings. It cannot be stressed too often that a better investment climate is the key to Latin American development in the coming years. Our average domestic savings rates, at 20 percent, continue to be far below the 30 percent attained in Asian countries. Driving down the fiscal deficit is a very important step in this direction, but much remains to be done with regard to mobilizing private savings. Markets, financial institutions, and social security financing must necessarily be reformed if this problem is to be solved.

• On a third front, there is a need to tackle social reforms that are truly consonant with the programs under way to modernize economies. The political and social validity of any economic strategy will hinge ultimately on the opportunities made available for public input and jobs created in the production sector for the needier segments of society, who today toil in the informal sector and microenterprises.

The economic systems that prevailed in the past in many Latin American nations relegated the vast majority of both urban and rural populations to their fringes. Even today, 40 percent of the region's population earns less than a minimum wage, and a very large number are living in extreme poverty.

This situation is ethically unacceptable and socially, politically, and economically untenable. It is unethical because at this juncture, as the countries in the region reap the firstfruits of their economic reform programs, they are truly in a position to launch a frontal attack on poverty. It is a social concern because vast

[6] United Nations, Economic Commission for Latin America and the Caribbean (1992).

sectors of Latin American society are living in poverty, and are therefore shut off from the educational and job opportunities, proper health care, and decent quality of life that are every person's right. It is a political problem because a nation's poor cannot become responsible citizens, involved in the political process and committed to its stability, unless they are full partners in social development and the production apparatus. And it is an economic problem because not a single country in the world has ever been able to compete on the global marketplace when 40 percent of its people were poor and unproductive. Training for those who have been on the sidelines of development is absolutely essential if modern economies are to be built in Latin America.

## *Vulnerabilities and International Relations*

With this new development model, the nations of Latin America aspire to join the international community as active players on the strength of their vast natural and human resources and the wealth of experience they have built up in past years. This ambition can be realized only if the region's economies are truly open, modern, and competitive, and Latin America has therefore been a forceful advocate of the Uruguay Round talks under the General Agreement on Tariffs and Trade, which appear to have reached another critical point.

Reciprocity and symmetry have not always been the hallmarks of international trade. Latin America has taken aggressive steps to open up its economies, at no small sacrifice, because it is fully persuaded of the benefits this will bring, and it has done so without waiting for parallel initiatives on the external front. The successful completion of the Uruguay Round is of the essence here, to bolster the countries' own efforts to forge truly open economies that can compete internationally. The failure of those negotiations would be deeply disappointing for the countries and ultimately would force them to rethink their external trade strategies.

Armed with this same determination, Mexico has embarked upon talks with its neighbors to the north to create the North American free trade zone, known to us all now as NAFTA (North American Free Trade Agreement). A free zone of this nature will pose a far greater challenge to the Mexican people than to their counterparts in the United States and Canada, but they are aware from the history of other initiatives to open markets and economic areas and remove barriers to trade that, in the long run, all three nations stand to benefit from such an arrangement.

In many Latin American countries, NAFTA is viewed as an opportunity to build modern, open economies more quickly and to anchor their own development models. Here again, if this initiative were to be held up or to fail, the region would have to bury its hopes, and its nations would lose ground in their pursuit of freer economies and international integration.

A consideration of particular interest to the region's countries as they drop barriers to external trade and modernize their economies is the new range of integration approaches that have been tested in recent years in the region. Multilateral and bilateral arrangements ranging from Mercosur in the Southern Cone to the Group of Three in the north—encompassing Colombia, Venezuela, and Mexico—as well as the bilateral agreements worked out between Chile and Mexico, are suggesting new and more flexible integration possibilities. These take an entirely different approach from the closed, defensive, and global style of integration scheme that prevailed in the past. Regional cooperation, viewed from this fresh angle, is not a way of closing off the economies of a given number of countries, but quite the contrary: it provides a way for countries to work out cooperative arrangements for production, trade, and finance, to become more competitive, and to improve their international market share.

The economic gains made by the region's nations have always been tightly tied to the vagaries of the international economic cycle. This is nowhere more in evidence than in today's global economy, which is more vigorous, more complex, and more interdependent than ever, and the region's economies are more active players in that marketplace than at any time in their history. The recessive conditions and sluggish growth apparent in the industrial countries have taken an immediate toll on the prices of export commodities, which are still the trade lifeline for many Latin American economies. But the less traditional export products have felt their effects as well. They are more vulnerable to protectionist barriers raised in the developed markets, which pose a constant threat to the development of an unfettered, transparent global marketplace.

Such threats are particularly disheartening at a juncture in which the international community is exhorting the developing economies to modernize, to lower barriers to trade, and to join in the movement toward international integration. We must, with a renewed sense of urgency, rethink the configuration of the postwar world economy, do away with distortions that have colored its workings in years past, and press firmly and of one accord for measures that will move the trade liberalization process forward and heighten international cooperation.

In a word, then, there is a need for a fresh look at the structures conceived at the Bretton Woods meetings. The underlying principles forged there some fifty years ago may have lost currency, and in the trade sector, for one, their objectives may not have been attained. The world today has a new economic and political face, and the Bretton Woods configuration too will have to adapt to keep pace with the global drive toward interdependence in the world marketplace.

One particular target for thoughtful review would be the system governing the decision-making process with respect to international economic relations, in order to democratize it and create the necessary capacity to deal with the distinct problems posed by the production sector, technology, and the worlds of finance and trade.

As neighbors in a global village, each of our countries cannot help but benefit as the developing nations become full partners in the world economy.

## IV. CONCLUSIONS

My message to you today has been guided by three central considerations. First, in the past quarter century the international system and the world economy have undergone a sea change, and every single region and economic system in the world has been swept up in it. In the latter part of the 1980s Latin American nations completely rewrote their development strategies, in part to keep pace with the transfiguration on the international front, and in part as a response to lessons learned. Second, in order to understand and deal effectively with such deep-seated changes, we must look within and beyond our own borders, and act both globally and locally. And third, in the wake of these changes in Latin America and in the greater world community there has emerged a more diverse, more complex, and more mutable reality, in which a larger number of closely linked variables are at work. As it shapes its development strategies in anticipation of the turn of the century, Latin America will, for the first time, need to take full account of these intricate linkages.

From the end of the last century until well into the 1930s, the region pinned its hopes for growth on its exports, on the most attractive terms possible, of the commodities that each of its countries was best able to produce. Export revenues gave the ruling classes a comfortable life, drove a fairly rudimentary state apparatus, and helped exporting nations achieve some measure of progress toward vaguely defined goals.

In the wake of the crisis of the 1930s and the Second World War, the region looked to industry as a vehicle for economic growth and improvements in social conditions. This was at once a necessity and a spur to strengthening of the state, urban development, the rise of the middle class and industrial workers, better education and other social advances, and construction of an infrastructure in which the industrialization process could unfold.

By the early 1970s, this model was defunct. It had failed to loosen, in any meaningful way, the external constraints that were suffocating the region's economies and had left those economies with lasting imbalances on the domestic side and in their dealings with the rest of the world. The development strategies they have adopted in the decades since then, through the years of the external debt crisis and the adjustment policies of the 1980s, have not been and can never again be as simple as those embraced in the past.

Since the late 1980s, one Latin American nation after another has embarked upon structural reform programs that have helped right the economic balance. This has been achieved with a combination of great technical skill and unmistakable political acumen. As equilibrium has been restored, we have gained a clearer picture of economic realities, left old habits behind, and come to understand that while reforms are all well and good, economic growth hinges on a whole series of elements, each linked in some way to the other. We can no longer, as in the past, neglect these other variables, address them halfheartedly, or view them in a vacuum.

As I contemplate the changes afoot in the region's economic policies, I feel justified in looking ahead to Latin America's future with a measure of optimism and confidence. I have lived in our America for too many years to underestimate the depth of these changes and the strength of political commitment to them.

But I can also see that they entail risks and weaknesses, stemming partly from the international context and partly from the internal political and social realities prevailing in our countries.

It is crucial that we realize that behind these emerging consensuses on the problems and challenges of development, there are also clear policies for transforming these consensuses into concrete actions.

As this more clear-eyed vision of economic development takes hold in Latin America, a consensus is emerging on a number of central concerns:

(1) The imperative of restoring basic macroeconomic balances as a way of ensuring stability in the price system.

(2) The pressing need to transform production patterns, modernize technology, open the doors of our economies, and develop ways of competing effectively in the world marketplace.

(3) The importance of understanding the true role of higher domestic savings and stronger investment on the domestic and international fronts alike, not merely in volume—since the recession clearly will affect flows of investment funding—but in terms of the quality of investment and ways in which it can be targeted to innovative ventures to help attain the development goals of which we have been speaking today.

(4) The need to completely rethink the workings of the marketplace and the role of private enterprise in investment and economic growth. As a new century dawns, our economies need a private sector with a more innovative and entrepreneurial bent, a new production culture, and the drive to expand the business community to help bring segments of society that have been bypassed by growth into the mainstream of the modern economy.

(5) The necessary interplay between a modern, creative, and competitive private sector and technological innovation, transcending monopolistic approaches to national scientific infrastructure and interweaving the efforts of a large number of public and private socioeconomic agents.

(6) The importance of bolstering Latin America's finance sectors and capital markets, to expand them, make them more democratic, and instill in them an entrepreneurial and creative spirit that will make possible support for investment projects that can

produce new technologies, reshape the production sector, and build a modern business sector.

(7) The need for immediate social reforms that will keep the social services delivered under current policies to the neediest population groups but supplement them with education and training programs, advisory support, technical cooperation, and financing, to ease workers in the informal market, the self-employed, and microentrepreneurs into the mainstream economy, and raise productivity in the country overall.

(8) The need to modernize the state through judicious rescaling, with the central goal of creating more efficient and enterprising public sectors that can serve as catalysts for development and improve the performance of public and private enterprises alike. Above all, through such initiatives the state should seek to build the structure it needs to work more closely with the private sector, with workers, social organizations, and regional and local forces that wish to help their countries grow and are in a position to do so, and to instill in them a sense of mission that will see these aims accomplished. As a logical counterpart of this process, decentralization efforts should be intensified and the administration of the state's business streamlined.

(9) The need to preserve the environment through policies that contribute to sustainable development in the use of natural resources and the improvement of conditions in the cities and the countryside.

(10) Support for outward-looking policies that incorporate mechanisms for competitive regional integration which contributes to the flow of trade and effective integration of the region into the international economy.

These are some of the key political factors that can translate such a consensus into policy, with the social support that is needed to make it viable and irreversible. It is essential that we enhance the quality of political activity and dialogue in all the countries. We need to focus on ideas and values rather than on the distribution of power. Political action must be more closely attuned to people's needs, encouraging broader citizen involvement than in the past.

Everywhere we are witnessing opinion leaders coming to the fore, in politics, business, and labor and in social and intellectual circles, who express, each in his or her own way, a less ideological and more pragmatic vision of reality. It is becoming apparent to them that the range of economic policy options has narrowed, and that choices are limited in seeking to be more efficient economically and socially in this globalized world. Given this widespread conviction among regional leaders, it should be possible to identify basic points of consensus and reach political pacts. While preserving the diversity of opinion, this will enable us to deal with dissension in new ways that will leave behind traditional conflicts, which were often as costly as they were fruitless. Within that process, however, we must not underestimate the pressure brought to bear by certain groups, nostalgic for the past, that wish to recover their former status or defend their share of power, wealth, and income. We must keep in mind that in any transition period such as this one, whether in the sphere of ideas or politics—even at times as promising as these—there is always the threat that we will have to weather the kind of fluctuations and setbacks that are typical of modern societies. In order to face such threats we need to foster a political culture that favors consensus building and managing the legitimate impatience arising in our societies given the time frames necessary to achieve the objectives we have set ourselves.

We are endeavoring at the Inter-American Development Bank to discern the patterns in these trends of change in Latin America. We are doing so through our continuing presence in the region, through our dialogue with political spokesmen and economic agents, and through our exchanges with economic and social scientists and with those officials at the Bank who convey the countries' views. In furtherance of the open, democratic, and robust societies now being consolidated in Latin America, the role of a multilateral institution such as the Inter-American Development Bank must be fueled by such a dialogue, and we must stand by the countries throughout this process of transformation by instituting policies of our own that will effectively serve and support them.

## V. STATISTICAL APPENDIX

**Table 1. Sales of Transnational Corporations and World Trade in Goods and Commercial Services**

*(Billion U.S. dollars)*

| | Sales[1] | World Exports | | |
|---|---|---|---|---|
| | | Goods | Commercial services[2] | Total |
| 1981 | 2,526 | 2,011 | 413 | 2,424 |
| 1982 | 2,577 | 1,882 | 398 | 2,280 |
| 1983 | 2,628 | 1,839 | 387 | 2,226 |
| 1984 | 2,681 | 1,944 | 398 | 2,342 |
| 1985 | 2,734 | 1,947 | 405 | 2,352 |
| 1986 | 3,145 | 2,133 | 474 | 2,607 |
| 1987 | 3,616 | 2,510 | 559 | 3,069 |
| 1988 | 4,159 | 2,860 | 630 | 3,490 |
| 1989 | 4,783 | 3,088 | 705 | 3,793 |
| 1990 | 5,500 | 3,447 | 855 | 4,302 |
| 1991 | 5,500 | 3,506 | 890 | 4,396 |

[1]Calculations based on United Nations Conference on Trade and Development (1993).
[2]General Agreement on Tariffs and Trade (1993).

**Table 2. Borrowing on International Capital Markets, World Trade, and Production**

| | Borrowing on International Financial Markets[1] *(Billion U.S. dollars)* | Index (1981 = 100) | World Trade[2] *(Billion U.S. dollars)* | Index (1981 = 100) | GDP[3] (Annual change; *percent*) | Index *(1981 = 100)* |
|---|---|---|---|---|---|---|
| 1981 | 200.6 | 100.0 | 1,881.2 | 100.0 | 1.5 | 100.0 |
| 1982 | 179.1 | 89.3 | 1,731.4 | 92.0 | 0.3 | 100.3 |
| 1983 | 157.8 | 78.7 | 1,697.5 | 90.2 | 2.3 | 102.6 |
| 1984 | 228.8 | 114.1 | 1,810.8 | 96.3 | 4.6 | 107.3 |
| 1985 | 256.5 | 127.9 | 1,822.0 | 96.9 | 3.5 | 111.1 |
| 1986 | 279.1 | 139.1 | 2,005.4 | 106.6 | 2.9 | 114.3 |
| 1987 | 392.9 | 195.9 | 2,360.7 | 125.5 | 3.4 | 118.2 |
| 1988 | 453.5 | 226.1 | 2,697.3 | 143.4 | 4.3 | 123.3 |
| 1989 | 466.5 | 232.6 | 2,908.6 | 154.6 | 3.2 | 127.2 |
| 1990 | 434.9 | 216.8 | 3,330.9 | 180.3 | 2.5 | 130.4 |
| 1991 | 524.9 | 261.7 | 3,441.7 | 183.0 | 0.6 | 131.2 |
| 1992 | 609.7 | 303.9 | 3,644.9 | 193.8 | 1.8 | 133.5 |

[1]Sources: 1981–86: Organization for Economic Cooperation and Development, *Financial Market Trends*, quoted in United Nations Conference on Trade and Development (1992), p. 220. 1987–92: Organization for Economic Cooperation and Development (1993), p. 7.
[2]Sources: International Monetary Fund (1992a and 1993a).
[3]Sources: International Monetary Fund (1992a and 1993b, p. 10).

**Table 3. OECD Countries: National Savings, External Balance, and Government Financial Balance over GDP**
*(Percent)*

| | Savings | External Balance | Government Financial Balance |
|---|---|---|---|
| 1960 | 21.9 | 0.3 | n.a. |
| 1961 | 21.5 | 0.3 | n.a. |
| 1962 | 21.7 | 0.3 | n.a. |
| 1963 | 21.7 | 0.2 | n.a. |
| 1964 | 22.5 | 0.3 | n.a. |
| 1965 | 23.1 | 0.3 | n.a. |
| 1966 | 22.7 | 0.2 | n.a. |
| 1967 | 22.3 | 0.2 | n.a. |
| 1968 | 22.7 | 0.3 | n.a. |
| 1969 | 23.4 | 0.2 | n.a. |
| 1970 | 23.4 | 0.3 | n.a. |
| 1971 | 23.0 | 0.5 | –0.6 |
| 1972 | 23.6 | 0.4 | –0.6 |
| 1973 | 25.3 | 0.3 | 0.1 |
| 1974 | 23.7 | –0.7 | –0.7 |
| 1975 | 22.7 | 0.1 | –4.0 |
| 1976 | 23.1 | –0.3 | –3.0 |
| 1977 | 23.2 | –0.4 | –2.3 |
| 1978 | 24.0 | 0.2 | –2.7 |
| 1979 | 24.0 | –0.4 | –2.3 |
| 1980 | 22.9 | –0.9 | –2.7 |
| 1981 | 22.8 | –0.3 | –3.0 |
| 1982 | 21.4 | –0.4 | –4.1 |
| 1983 | 20.9 | –0.3 | –4.4 |
| 1984 | 21.9 | –0.7 | –3.5 |
| 1985 | 21.6 | –0.7 | –3.3 |
| 1986 | 21.3 | –0.3 | –3.2 |
| 1987 | 21.4 | –0.5 | –2.3 |
| 1988 | 22.1 | –0.4 | –1.7 |
| 1989 | 22.3 | –0.5 | –1.0 |
| 1990 | 21.6 | –0.7 | –1.8 |
| 1991 | 20.9 | –0.1 | –2.6 |
| 1992 | n.a. | –0.2 | –3.7 |

Sources: Organization for Economic Cooperation and Development (1982, 1990, and 1993b).
n.a. = not available.

**Table 4. Balance of Payments Position on Current Account**
*(Billion U.S. dollars)*

| | United States | Germany | Japan |
|---|---|---|---|
| 1960 | 3.8 | 0.7 | 0.1 |
| 1961 | 3.4 | –0.4 | –1.0 |
| 1962 | 3.4 | –0.5 | 0.0 |
| 1963 | 4.4 | 0.2 | –0.8 |
| 1964 | 6.8 | 0.1 | –0.5 |
| 1965 | 5.4 | –1.7 | 0.9 |
| 1966 | 3.0 | 0.1 | 1.3 |
| 1967 | 2.6 | 2.6 | –0.2 |
| 1968 | 0.6 | 3.0 | 1.0 |
| 1969 | 0.4 | 2.0 | 2.1 |
| 1970 | 2.3 | 0.9 | 2.0 |
| 1971 | –1.5 | 1.0 | 5.8 |
| 1972 | –5.8 | 1.2 | 6.6 |
| 1973 | 7.1 | 5.1 | –0.1 |
| 1974 | 1.9 | 10.5 | –4.7 |
| 1975 | 18.1 | 4.3 | –0.7 |
| 1976 | 4.2 | 3.5 | 3.7 |
| 1977 | –14.5 | 3.8 | 10.9 |
| 1978 | –15.4 | 8.9 | 16.5 |
| 1979 | 0.2 | –5.8 | –8.7 |
| 1980 | 1.2 | –14.3 | –10.8 |
| 1981 | 7.3 | –3.4 | 4.8 |
| 1982 | –5.9 | 5.0 | 6.9 |
| 1983 | –40.2 | 5.4 | 20.8 |
| 1984 | –99.0 | 9.6 | 35.0 |
| 1985 | –122.3 | 17.0 | 49.2 |
| 1986 | –147.5 | 40.1 | 85.8 |
| 1987 | –163.5 | 46.3 | 87.0 |
| 1988 | –126.7 | 50.6 | 79.6 |
| 1989 | –101.2 | 57.7 | 57.0 |
| 1990 | –90.5 | 46.3 | 35.9 |
| 1991 | –3.7 | –19.7 | 72.9 |
| 1992 | –62.5 | –26.0 | 117.6 |

Sources: International Monetary Fund, *International Financial Statistics Yearbook*, 1983, 1992, and 1993.

**Table 5. OECD Countries: Annual Rate of Change in Gross Domestic Product**
*(Percent)*

| | | | |
|---|---|---|---|
| 1961 | 4.8 | 1977 | 3.7 |
| 1962 | 5.3 | 1978 | 4.1 |
| 1963 | 4.8 | 1979 | 3.6 |
| 1964 | 6.3 | 1980 | 1.2 |
| 1965 | 5.2 | 1981 | 1.6 |
| 1966 | 5.3 | 1982 | 0.0 |
| 1967 | 3.7 | 1983 | 2.7 |
| 1968 | 5.8 | 1984 | 4.4 |
| 1969 | 5.4 | 1985 | 3.3 |
| 1970 | 4.1 | 1986 | 2.8 |
| 1971 | 3.5 | 1987 | 3.2 |
| 1972 | 5.4 | 1988 | 4.4 |
| 1973 | 6.0 | 1989 | 3.3 |
| 1974 | 0.8 | 1990 | 2.4 |
| 1975 | 0.0 | 1991 | 0.7 |
| 1976 | 4.6 | 1992 | 1.5 |

Sources: Organization for Economic Cooperation and Development (1982, 1990, and 1993b).

**Table 6. Latin America: Gross Domestic Product**
*(Rate of real growth; in percent)*

| | | | |
|---|---|---|---|
| 1961 | 6.9 | 1977 | 5.0 |
| 1962 | 3.7 | 1978 | 3.7 |
| 1963 | 2.4 | 1979 | 6.3 |
| 1964 | 7.7 | 1980 | 6.4 |
| 1965 | 5.7 | 1981 | –0.3 |
| 1966 | 4.5 | 1982 | –1.1 |
| 1967 | 3.9 | 1983 | –2.9 |
| 1968 | 7.1 | 1984 | 3.2 |
| 1969 | 7.5 | 1985 | 2.7 |
| 1970 | 7.4 | 1986 | 4.6 |
| 1971 | 6.3 | 1987 | 3.4 |
| 1972 | 6.7 | 1988 | 0.5 |
| 1973 | 8.1 | 1989 | 0.6 |
| 1974 | 6.4 | 1990 | –0.1 |
| 1975 | 3.4 | 1991 | 3.7 |
| 1976 | 5.8 | 1992 | 2.9 |

Source: Inter-American Development Bank, based on official statistics from member countries.

**Table 7. Latin America: Investment and Savings as a Percentage of GDP**

| | Investment | Savings | | Investment | Savings |
|---|---|---|---|---|---|
| 1960 | 22.0 | 21.2 | 1977 | 29.4 | 25.6 |
| 1961 | 21.7 | 21.4 | 1978 | 29.0 | 25.2 |
| 1962 | 20.8 | 21.6 | 1979 | 27.9 | 24.0 |
| 1963 | 19.3 | 20.7 | 1980 | 29.3 | 24.3 |
| 1964 | 21.1 | 21.6 | 1981 | 28.6 | 23.7 |
| 1965 | 22.9 | 23.9 | 1982 | 25.1 | 23.1 |
| 1966 | 23.3 | 23.8 | 1983 | 19.9 | 22.0 |
| 1967 | 22.4 | 22.7 | 1984 | 20.2 | 22.7 |
| 1968 | 23.5 | 23.3 | 1985 | 21.5 | 24.6 |
| 1969 | 25.3 | 25.2 | 1986 | 21.2 | 23.5 |
| 1970 | 25.5 | 25.1 | 1987 | 21.7 | 24.4 |
| 1971 | 26.2 | 24.8 | 1988 | 21.8 | 24.5 |
| 1972 | 25.9 | 24.6 | 1989 | 20.1 | 23.3 |
| 1973 | 27.4 | 25.8 | 1990 | 19.5 | 22.5 |
| 1974 | 29.6 | 25.8 | 1991 | 20.3 | 21.7 |
| 1975 | 29.9 | 25.9 | 1992 | 21.8 | 21.5 |
| 1976 | 28.9 | 25.5 | | | |

Source: Inter-American Development Bank, based on official statistics from member countries.

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# Questions and Answers

*Following the formal presentation, Mr. Iglesias answered questions from the audience.*

*I think everyone knows the role you played in launching the Uruguay Round, and I think a number of us are concerned that NAFTA will not pass, and in turn, it will affect the Uruguay Round adversely. Would you comment on the signal that the failure to pass NAFTA would send to Latin America?*

MR. IGLESIAS: Failure to pass NAFTA would be a great source of frustration for Latin America, as you suggest. For instance, Mexico's trade with the United States is now in excess of US$60 billion yearly, and is growing rapidly. Three quarters of Mexico's foreign trade is with the United States, and two thirds of foreign investment in that country comes from the United States. Along the border there is a high concentration of production and trade activities which are important to world trade flows and generate many jobs. So close economic ties between the two countries are already a reality, one that reflects their mutual interests and existed even before the NAFTA proposal. But the pact would enable those ties to be expanded and deepened, and it is that potential expansion and its benefits for national economies which is at stake in the process under way.

The failure of the NAFTA negotiations would be equally frustrating for the rest of Latin America. NAFTA is seen in the region as the starting point in a process to review relations in the hemisphere with a view to reaching a new agreement. If it should fail, the countries would be forced to seek out new trade relations and rethink the reform policies now being implemented.

*Could you tell us how much of the impressive new economic growth record is being absorbed by population growth? How does it look in per-head terms and what chance do you see that population growth may slow down?*

MR. IGLESIAS: As I said in my talk, population growth is an important issue and should not be glossed over. The average rate of population growth in Latin America has fallen significantly over the past three decades, from 2.7 percent yearly in the 1950s to 2.1 percent in the 1980s. Projections for this decade call for an average rate of 1.7 percent, in a continuation of the downward trend. These figures make it clear that the region has seen a significant shift in demographics. The change has occurred more rapidly in some countries than in others, but generally all the Latin American countries have seen a decline in their rates of population growth.

In any case, high population growth has meant a sacrifice for the region in terms of how quickly it could improve living standards. Between 1970 and 1992, GDP per capita grew at an annual rate of just 1.1 percent, compared to an overall rate of growth in GDP of 3.4 percent. At the same time, demand was high for new jobs and for basic social services such as health care, education, and housing. This situation has definitely had an impact on poverty, so it has been a constant source of concern for national economic authorities, and has therefore been reflected in their development efforts.

*The weekend edition of the* Financial Times *reports on a World Bank study on the dynamics of income distribution in Latin America. The claim is that it does pose very serious challenges for sustaining reforms. How would you react to this study?*

MR. IGLESIAS: This is another problem I covered in my talk, and I consider it one of the most serious now facing the region. Unequal income distribution in Latin America is attributable to many factors. One of them, dating back to the days of Christopher Columbus, is the allocation of landed property. Other factors are fiscal policies and the quality of spending on social development. A substantial amount of spending is earmarked for social purposes in the region, but not in the most effective way. Improving income distribution is an integral and central part of the new development policies. We recognize this as a major economic challenge, but also as an important political one.

*You have given us a very interesting talk on the momentum of reform in Latin America. I don't want to embarrass you, but I think it would be interesting if you could break it down a little bit* *geographically. You spoke about the region as a whole. One has the impression that perhaps there are a few differences among the Latin American countries in the degree of reform.*

SIR JEREMY MORSE: Enrique, before you tackle that, I have a written question which is on the same line. It says, "Following your evaluation, Latin America is on a positive path, but what about Brazil? Argentina has achieved the turnaround. What about Brazil?"

MR. IGLESIAS: I am aware of the concerns about Brazil, but let me just point out a few specifics with respect to that country's situation. Brazil has a high inflation rate, on the order of 35 percent monthly, which defeats any theory about sustaining that pace of adjustment in prices. Also, the Brazilian economy is expected to expand by about 4.5 percent in 1993. Exports will rise to US$39 billion in 1993, compared to US$31.6 billion in 1991. And the country's international reserves will climb by about US$5 billion in 1993, after an increase of over US$15 billion in 1992.

It is widely thought that this situation is unsustainable, and we are well aware that the Government is endeavoring to implement a program of significant economic reforms. However, we must acknowledge that Brazilian economic policy is highly sophisticated in being able to reconcile high rates of economic growth and export expansion with persistently high inflation. There is a difference between the recent inflation experienced in many parts of the world and the Brazilian experience, where decades-long high inflation has formed habits of behavior. However, this is an issue with profound political implications.

I think Brazil is moving in the right direction, and I see enough confidence and optimism there to take advantage of the opportunities opened up with the new constitution. The Government has put together a highly competent team, and I would single out in particular the Minister of the Economy and the political commitment undertaken by the President. Brazil is quite unique. And naturally, income distribution in Brazil reflects the price of past patterns of development.

*The Per Jacobsson lectures are supposed to be on a high level. But haven't you been a little bit too polite when you say that in the latter part of the 1980s there were a lot of courageous leaders, political leaders in Latin America? Hasn't there been a shift toward cowardly leaders in Europe and other places? I only speak* *of bananas. [Laughter.] Agricultural subsidies in Europe are double or three times its development aid. Look at Costa Rica and your home country. Aid is basically taken away by the policy on banana imports of Europe. Now, isn't that a signal of cowardice and crisis in leadership? And is not what is happening about the GATT Round also a looming signal of crisis in leadership and cowardice of leaders?*

MR. IGLESIAS: You are aware that I am President of a bank, are you not? [Laughter.]

What can I say about this? For one thing, agricultural subsidies in the industrial countries are quite considerable, totaling about US$320 billion according to OECD estimates. There is an excellent study by the OECD Development Centre estimating the income that would be generated by a conclusion of the Uruguay Round of GATT at close to US$200 billion.

Of course, this is a delicate matter. In my opinion, the greatest difficulty is rising unemployment in Europe, and persistently high unemployment in the United States, although it has eased somewhat in recent months. This is a factor that leads to raising protectionist barriers. But adopting such policies would be a mistake, with adverse effects on not only developing countries, especially in Latin America, but also the industrialized economies themselves. So you have raised an issue of much concern, and it is my hope that a rational view will prevail. That was precisely our aim in launching the Uruguay Round.

*Could you say a little bit more about the phenomenon of the repatriation of capital to Latin America? That seems to me to have been one of the most impressive and even surprising changes in the last years. Could you comment on how important it has been in the recovery and the promotion of investment and how far it has brought with it not only money but entrepreneurship and management?*

MR. IGLESIAS: I do not think anyone knows exactly what proportion of the capital flowing into Latin America in recent years is Latin American owned and what proportion is foreign. We know that capital has been repatriated, but we do not know how much in all.

There is a positive side of this: foreign direct investment accounts for about a third of the capital inflows. But a substantial proportion is attributable to speculation fueled by high interest rates in the region. And some of this foreign investment represents interest in opportunities created by privatization, which has played an important role.

This extraordinary foreign exchange income has had both positive and negative results. Excess liquidity has pushed up exchange rates, and sterilizing it is becoming a constant headache for monetary authorities. The International Monetary Fund is concerned about these and other effects. The increased foreign exchange receipts have been used in part to enable central banks to build up their international reserves substantially. Of the US$100 billion in net income on the capital account of the region's balance of payments in 1991 and 1992, about two thirds was used to finance higher current deficits and the rest to build up international reserves.

Although the aggregate amount of capital flowing into the region is comparable to flows in the early 1980s, the overall situation and the composition of the inflows are appreciably different. A good part of them is being used for productive investment and reserves. Fiscal deficits have been trimmed radically, and some countries have even posted surpluses, so that most resources have gone to the private sector. Fiscal management, in conjunction with the signs of economic recovery, has engendered a climate of confidence that has been acknowledged as being very positive by foreign investors. That is the overall picture, although of course some countries continue to face problems.

*In at least three Latin American countries—Peru, Bolivia, and Guatemala—the political classes are distinct ethnically from their indigenous subjects. Do you think that by the end of this century any of these peoples will become at least joint masters of their national economies?*

MR. IGLESIAS: This is a problem I am very familiar with. In fact, we have seen some important changes, and prospects are favorable at present. Last month I was present at the inaugural celebrations for the new administration in Bolivia. As you know, the Vice President is indigenous and very proud of his ancestry. There are many indications that things are changing in this area; for instance, indigenous communities are developing a clearer awareness of their expanded role in national life. New indigenous leaders are becoming world-renowned, as for instance Rigoberta Menchú. Civil society is becoming more active and new groups are being assimilated into political life.

*It seems to me that one of the many encouraging things about recent experience in Latin America has been the relatively high proportion of equity investment as a proportion of total foreign direct investment. Do you see the seeds of any kind of reaction—any kind of political reaction—to this trend, or do you feel that the welcome that equity investment is currently getting is part of the irreversible improvement that you refer to?*

MR. IGLESIAS: Yes, I do think so, definitely. This is an issue I have followed very closely over the past decades. I can still remember the famous Resolution 24 of the Andean Pact. Clearly, the region's peoples and political leaders are evincing a new attitude toward foreign investment, and there are areas, such as oil, that we would never have imagined as being eligible for privatization. Essentially that is not even being questioned now, even though some years ago the topic was taboo. This is a radical change.

*You have expanded a little bit on two of the points which you made looking ahead on deepening and enlarging reform and on the social dimension in the questions and answers so far. I wanted to ask if you could expand a little bit on the savings rate question. You pointed to the need to raise these rates from 20 percent to 30 percent, and no doubt something had to be done with fiscal policy, but what about raising the private savings rate? What do you see as the main things that need to be done to sustain performance on that score?*

MR. IGLESIAS: Firstly, I think that the requisite conditions to stimulate an increase in private savings in Latin America are there and being consolidated. Gradual price stabilization is a basic requirement, and has been taking place over the past three years.

Secondly, you mentioned the fiscal situation. It's true that the fiscal deficit has traditionally absorbed private savings, so it is very important to eliminate it in order to increase savings overall. I can remember the times when governments contributed to overall savings, with surpluses of 3 or 4 percentage points of GDP.

Thirdly, I think financial reforms are playing a crucial role in stimulating higher savings and improving their allocation to the most productive investments. Social security systems are being restructured in many countries. Chile is a very good example. Argentina is making progress in that direction, and Mexico and other countries are looking to stimulate new sources of savings.

So the region is making strides in promoting savings. Given the progress made by Chile in recent years, I am optimistic that much can be done in this area.

*Is corruption, like authoritarianism, a thing of the past in Latin America?*

MR. IGLESIAS: I think there is no way to avoid every single problem, and that is true not only in Latin America; your question is pertinent to other countries as well, including in the North.

One lesson is that authoritarianism does not solve anything. Many people have learned that the fundamental goals of economic and social progress cannot be achieved through authoritarianism, but this is something we must also practice in our own lives. I believe that people are more and more appreciative of the advantages and virtues of freedom and living together in a democratic society. And some of the more complex situations in recent history prove that there is a kind of collective consciousness about the value of freedom and democracy. This is something we should endeavor to hold onto. Democracy is very important, and it is constantly being put to the test. We must work for it and defend it every day.

On the subject of corruption, I think we have seen convincing proof in the recent past—including the removal of senior government officials—that the conviction and political will to combat corruption does exist. I think we need to establish conditions that will prevent corruption from occurring, by improving regulatory frameworks and law enforcement, and by putting policies in place to check excessive government intervention. Also, improving efficiency in governments' performance overall, and of judicial systems in particular, is an essential prerequisite in fighting corruption.

As I said, we are not immune to this problem, but I think the region's recent experiences are significant, not only for us but for the rest of the world as well.

*Your bank, the IDB, has played a very important role in the events you described and the progress made, as has the World Bank over these past years. What lessons can you derive from the* *experience of these two institutions working together on much the same problems? What lessons are there for the future, indeed as you look forward in terms of your role and the World Bank's role?*

MR. IGLESIAS: I am pleased to have the opportunity to talk about the Inter-American Development Bank. I think the collaboration between the IDB and the World Bank in recent years has been a very positive experience. Up until 1988 the IDB was not involved in policy-based lending, and we had no practical knowledge of this field. Our Governors authorized us to take on the task together with the World Bank, and after two years we continued on our own. Although our efforts have met with success, we have continued to work in close coordination with both the World Bank and the International Monetary Fund. As long as we are pursuing the same ends and working in the same countries, it would seem reasonable to maintain this policy of close coordination.

For the future, we recognize that there are serious problems facing Latin America. Social problems are bound to be high on our agenda for action with governments. I understand that this will be true of the World Bank as well. Environmental issues will also be a priority. So I hope we can continue to enhance our collaboration in the future. We have worked together at all levels of our respective organizations, not only formally or between the highest-ranking authorities. This has been of mutual interest and benefit to both institutions, and the benefits are duly appreciated by the governments of the Latin American countries.

SIR JEREMY MORSE: Our lecturer has answered questions now for nearly half an hour. I think there's time for one or two more and then we should let him rest from his labors. I have two related written questions—both about NAFTA. One says, "Do you consider NAFTA a panacea for many of the problems of Latin America?" And the other is about information and communication. It says, "What about the role that ignorance still plays in North-South relations? Our tendency is to ignore each other, especially over NAFTA. All institutions like your own bank must help better to educate and help people to understand. We have so much to do and so little time."

MR. IGLESIAS: In answer to the question on NAFTA, I think this is a highly important initiative that will generate many opportunities for each of the member countries. For Mexico it is an important instrument to expand foreign trade, which will in turn help underpin the reforms implemented to modernize the country. Still, the expansion of trade is not the only road to development. Internal changes continue to be as significant as international agreements.

With respect to North-South relations, I agree with you, Sir Jeremy, that communications and understanding between the two parties need to be improved. We often see situations where basic information is lacking. We are also concerned at times with the lack of understanding of the role of multilateral organizations. There is a tendency to focus on and magnify mistakes. No doubt those mistakes exist, but we should not neglect the great contribution these organizations have made to the region in the past thirty or forty years.

Their contribution does not consist solely of transferring funds to those countries, which is perhaps not their most important task. Most notable is when they join forces with the countries to advance institutional changes and fine-tune policies to take on the great challenges of development. Overcoming the external debt crisis of the 1980s, for instance, was a task undertaken jointly in this manner.

I think more needs to be done to raise the profile of the multilateral organizations and clarify the role they play in the global economy by fostering the development of lower-income countries. To neglect this task would mean exposing these institutions to the risk of being misinterpreted, thereby placing in jeopardy one of the more outstanding accomplishments of the postwar international community. Information and communication play a crucial part in all of this. For our part, we are doing all we can; and your presence here today is an important step in the right direction.

Thank you very much.

* * *

Sir Jeremy Morse: Well, Enrique, we have a lot to thank you for. After the outstanding lecture, you were equally impressive in answering what I thought was a very good range of questions about most of the issues that we have in our mind about your region, and we are fortified by your optimism.

The text of Enrique's speech is available as you go out—on the back table there in both English and Spanish—and we will also reproduce it in our usual format to send around to you.

Before we go to the reception, a word about next year's arrangements. Next year the Annual Meeting of the IMF will be held in Madrid at the beginning of October, and we are considering what form of event we might have there, which may be part of the celebrations of the fiftieth anniversary of the Bretton Woods institutions.

But before that, in June, we have a very important occasion: The lecture will take place in London as part of the tercentenary celebrations of the Bank of England. It will be in the late afternoon of Wednesday, June 8, as part of a celebratory evening. We are happy that the lecture on that great central banking occasion will be given by Alexandre Lamfalussy, who will be coming to the end of his term as General Manager of the Bank for International Settlements.

This will be in the same week that the International Monetary Conference meeting is held in London, as well as a central banking seminar arranged by the Bank of England. We very much hope that we will see many of you there. For those of you who cannot travel to London or to Madrid, we will see you again here in two years' time to continue this fascinating succession of lectures. Today's lecture was one of the very best that we have had.

Thank you all very much.

Enrique V. Iglesias

# Biography

Enrique V. Iglesias is President of the Inter-American Development Bank. He was re-elected to his second five-year term on April 1, 1993.

During his first term, Mr. Iglesias successfully concluded negotiations for the IDB's Seventh General Increase of Resources, which enabled the IDB to help its borrowing member countries enter into an era of reform, liberalization, and integration, as well as to carry out a program of modernization for the institution itself. Also during this period, the Inter-American Investment Corporation, the IDB's affiliate for providing direct assistance to small and medium-sized private enterprises, started its operations.

From 1985 to 1988, Mr. Iglesias was Minister of External Relations of Uruguay. He has also served as Executive Secretary of the United Nations Economic Commission for Latin America and the Caribbean (1972–85); Secretary General of the United Nations Conference on New and Renewable Sources of Energy held in Kenya in 1981; and Chairman of the conference that launched the Uruguay Round of trade negotiations under the aegis of the General Agreement on Tariffs and Trade in Punta del Este, Uruguay, in 1986.

Mr. Iglesias began his professional career in the private sector in 1954 as Managing Director of the Unión de Bancos del Uruguay. From 1966 to 1968 he was President of Uruguay's Central Bank.

Mr. Iglesias has written extensively on Latin American and Uruguayan economic issues, including capital markets, Uruguay's exchange system, the nature and scope of the external financing problem, the struggle for multilateralism, and IDB policies in the 1960s. He is also the author of "Latin America on the Threshold of the 1980s," "The Energy Challenge," and "Development and Equity: The Challenge of the 1980s."

Mr. Iglesias was born in Asturias, Spain, in 1930, and is a naturalized Uruguayan citizen. He graduated from the University of the Republic in economics and business administration in 1953 and went on to pursue specialized programs of study in the United States and France.

# The Per Jacobsson Lectures

1964 *Economic Growth and Monetary Stability.* Lectures by Maurice Frère and Rodrigo Gómez (Basle).

1965 *The Balance Between Monetary Policy and Other Instruments of Economic Policy in a Modern Society.* Lectures by C.D. Deshmukh and Robert V. Roosa.

1966 *The Role of the Central Banker Today.* Lecture by Louis Rasminsky; commentaries by Donato Menichella, Stefano Siglienti, Marcus Wallenberg, and Franz Aschinger (Rome).

1967 *Economic Development: The Banking Aspects.* Lecture by David Rockefeller; commentaries by Felipe Herrera and Shigeo Horie (Rio de Janeiro).

1968 *Central Banking and Economic Integration.* Lecture by M.W. Holtrop; commentary by Lord Cromer (Stockholm).

1969 *The Role of Monetary Gold Over the Next Ten Years.* Lecture by Alexandre Lamfalussy; commentaries by Wilfrid Baumgartner, Guido Carli, and L.K. Jha.

1970 *Toward a World Central Bank?* Lecture by William McChesney Martin; commentaries by Karl Blessing, Alfredo Machado Gómez, and Harry G. Johnson (Basle).

1971 *International Capital Movements: Past, Present, Future.* Lecture by Sir Eric Roll; commentaries by Henry H. Fowler and Wilfried Guth.

1972 *The Monetary Crisis of 1971: The Lessons to Be Learned.* Lecture by Henry C. Wallich; commentaries by C.J. Morse and I.G. Patel.

1973 *Inflation and the International Monetary System.* Lecture by Otmar Emminger; commentaries by Adolfo Diz and János Fekete (Basle).

1974 *Steps to International Monetary Order.* Lectures by Conrad J. Oort and Puey Ungphakorn; commentaries by Saburo Okita and William McChesney Martin (Tokyo).

1975 *Emerging Arrangements in International Payments: Public and Private.* Lecture by Alfred Hayes; commentaries by Khodadad Farmanfarmaian, Carlos Massad, and Claudio Segré.

1976 *Why Banks Are Unpopular.* Lecture by Guido Carli; commentary by Milton Gilbert (Basle).

1977 *The International Monetary System in Operation.* Lectures by Wilfried Guth and Sir Arthur Lewis.

1978 *The International Capital Market and the International Monetary System.* Lectures by Gabriel Hauge and Erik Hoffmeyer; commentary by Lord Roll of Ipsden.

1979 *The Anguish of Central Banking.* Lecture by Arthur F. Burns; commentaries by Milutin Ćirović and Jacques J. Polak (Belgrade).

1980 *Reflections on the International Monetary System.* Lecture by Guillaume Guindey; commentary by Charles A. Coombs (Basle).

1981 *Central Banking with the Benefit of Hindsight.* Lecture by Jelle Zijlstra; commentary by Albert Adomakoh.

1982 *Monetary Policy: Finding a Place to Stand.* Lecture by Gerald K. Bouey (Toronto).

1983 *Developing a New International Monetary System: A Long-Term View.* Lecture by H. Johannes Witteveen.

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1986 *The Emergence of Global Finance.* Lecture by Yusuke Kashiwagi.

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1993 *Latin America: Economic and Social Transition to the Twenty-First Century.* Lecture by Enrique V. Iglesias.

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