PROSPECTS FOR ECONOMIC DEVELOPMENT IN LATIN AMERICA

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LATIN AMERICAN PROSPECTS FOR THE 1980S. Edited by ARCHIBALD R. M. RITTER and DAVID H. POLLOCK. (New York: Praeger, 1983. Pp. 344. $31.95.)

LATIN AMERICAN DEVELOPMENT PROJECTIONS FOR THE 1980S. By CEPAL. (Santiago, Chile: United Nations, 1982. Pp. 89.)

ECONOMIC AND SOCIAL PROGRESS IN LATIN AMERICA: NATURAL RESOURCES. By the INTER-AMERICAN DEVELOPMENT BANK. (Washington, D.C.: IDB, 1983.)

ANNUAL REPORT 1983, INTER-AMERICAN DEVELOPMENT BANK. By the INTER-AMERICAN DEVELOPMENT BANK. (Washington, D.C.: IDB, 1984.)

THE THIRD WORLD ECONOMIC HANDBOOK. By STUART SINCLAIR. (London: Euromonitor Publications, 1982. U. S. distributor Gale Research. Pp. 198. $68.00.)

WORLD ECONOMIC OUTLOOK. International Monetary Fund Occasional Paper Number 21. (Washington, D.C.: International Monetary Fund, 1983. Pp. 242. $8.00.)

Three topics dominate the development literature these days: trade, money, and debt. What do they have in common? They are all international issues. Is this unusual? Very much so, for in classical development literature, the international dimension was always at the periphery. Development was explained by saving, investment, technology, and entrepreneurship, all of which were primarily domestic issues.

Why has the emphasis changed? For two reasons, I believe. One is that the international economy is indeed in crisis, and governments of less developed countries (LDCs) are well aware of it. But the other reason is deeper, and I believe, degenerative. It is the widespread belief on the part of LDC governments and economists from LDCs and MDCs (more developed countries) alike that underdevelopment is explained more by the policies of MDCs than by the policies of LDCs. Hence the clamor for a new international economic order, including new ways of handling trade, money, and debt.

Emphasis on the international sphere is scattered throughout the literature under review here. Two of the three headings in the introductory chapter of Stuart Sinclair's *The Third World Economic Handbook* are "Third World Involvement in International Trade" and "Third World Debt." This report is basically optimistic, citing the progress of the Third World through industrialization and trade and even minimizing the debt problem. But it was written before the Mexican, Brazilian, Venezuelan, and Argentine debts became serious. In any case, this work stresses the international outlook.

The reports of the International Monetary Fund (IMF) and the Inter-American Development Bank (IDB) also emphasize the international picture, undoubtedly because they are international institutions. The IDB's annual report for 1983 points to a "pervasive recession for the third straight year," with downturn "deeper and more widespread than it had been in 1982." The explanations offered emphasize "serious external problems," including trade deficit, high interest payments, and "sharp reduction in the inflow of external capital." In the last several years, the IDB has dedicated its annual *Economic and Social Progress Report* to a particular topic. In 1982 the external sector was chosen, with emphasis on trade, terms of trade, and international flows of technology. The topic chosen for 1983 was natural resources, including all the international implications of supply and demand for such resources. The IDB distinguishes between oil-exporting and non-oil-exporting LDCs, describing the impact of the reversal of oil market conditions on the former and the serious debt problems of the latter.

Latin American Prospects for the 1980s, edited by Archibald Ritter and David Pollock, is the most wide-ranging of the works under review. The volume contains a set of papers from a 1980 conference and opens with Pollock's proposed strategy projected to the year 2000. The collection's topics cover the 1980 Brandt report, human rights, income distribution, the demographic transition, oil wealth in Trinidad and Tobago, problems and opportunities in being a latecomer to economic development (relative to Europe), Central American integration, and political democracy and authoritarianism in general as well as in Cuba, Peru, Ecuador, Brazil, and Chile.

But the international dimension creeps into even these national experiences. Oil wealth is viewed as a means for Trinidad and Tobago to help the rest of Latin America. Chile's troubles are attributed in large part to "transnationalization" or "the functional incorporation of external constituencies" (p. 306). It is said of Brazil that "major decisions are not made in Brasília . . . but . . . in New York, Detroit, Germany, and Canada" (p. 284).

In this review, I will take the unorthodox—even unpopular—view that such heavy emphasis on the international is misplaced. Although the rest of the world is obviously important, the overwhelming amount of energy expended by governments in LDCs upon the role of industrialized countries is unhealthy and unproductive, and over time it will result in frustration. Pressure from these governments is not going to change significantly an economic order that has been evolving for centuries. The terms of trade will continue to function much as they have; and although creditors may be stung from time to time, their norm is nevertheless to expect debtors to repay according to original terms. This is the world we live in, a world whose changes have always been incremental and will continue to be so. In my opinion, Latin American governments will best promote economic development by coping with that world and negotiating with it on incremental points, rather than by suddenly seeking wholesale changes.

Commodity Prices and the New International Order

I will begin by examining some of the proposals for far-reaching change. In a contribution to *Latin American Prospects for the 1980s* entitled "The Brandt Report and Latin American Development in the 1980s," Enrique Iglesias credits the Brandt report (1980) with "a vigorous argument in favor of the need to sit down at a negotiating table and find subjects of common interest . . . in order to pave the way toward the rebuilding of the international economic order" (p. 23). CEPAL's projections for the 1980s in *Latin American Development Projections for the 1980s* presuppose that a New International Economic Order (NIEO) will be initiated.

The belief is widespread that Northern opposition to NIEO is explained by MDC governments wishing to keep their advantages in the existing system. Occasionally, however, an author (such as myself) argues that NIEO does not make good sense economically (Loehr and Powelson 1983). But nowhere in the literature have I encountered answers by proponents of the NIEO to arguments pointing out its deficiencies. Rather, they continue to endorse the NIEO as if nothing had ever been written to question it.

The basic assumption behind the International Commodities Fund that the NIEO would demand is that the terms of trade deteriorate secularly and persistently for LDCs. The parent of this belief is the now famous article by Raúl Prebisch (1950), which declared that the terms of trade declined for Latin America for over almost three-quarters of a century, from 1876–80 to 1946–47. Prebisch's case was not only empirical but theoretical. His explanation implied his belief that the decline would continue indefinitely.

A number of authors have challenged this argument on both empirical and theoretical grounds (Bairoch 1975; Bauer 1972; Ellsworth

1956; Kindleberger 1956; Loehr and Powelson 1981; Meier 1968; Powelson 1970). Empirically, Prebisch erred by using only British data, by failing to take into account economies in transportation, and by not including contrary information. When all products, all years, and all countries for which information is available are taken together, no case whatsoever can be made for persistently declining terms of trade. Theoretically, Prebisch erred by using nominal price-wage comparisons instead of real terms of trade (adjusted by exchange rates). These matters have all been discussed in the literature, but the argument has never been joined. Proponents of the NIEO continue to advocate it without addressing the objections.

I have argued elsewhere (Loehr and Powelson 1981) that if the NIEO were implemented, it would not serve as a means of transferring income and wealth from poor to rich, as its proponents aver, but vice versa. One should think in terms of rich and poor people, not rich and poor countries. If commodity prices were increased through an International Commodities Fund, the gainers would be the producers of commodities, who are primarily rich plantation owners in LDCs, multinational corporations, and parastatal enterprises known for their inefficiencies and corrupt distributions to political appointees. The losers would be the poor, who would pay the higher prices received by the rich, because the poor spend a greater percentage of their income on commodities than do the rich.

Debt

But the NIEO encompasses far more than commodity pricing. Its appeal for debt renegotiation would surely help the rich more than the poor because only the rich have the capacity to borrow. The poorest countries are not among the world's greatest debtors. Nor is India, whose principles against international borrowing now threaten to penalize the country by denying her the real resources that other countries will receive through debts now renegotiated.

The world debt crisis and its seriousness in Mexico, Brazil, Venezuela, and Argentina hardly need emphasis here. Yet the time lag between a problem arising and someone writing a book on it is so great that (except for articles in newspapers and journals) little has yet been written about the debt crisis. A spate of literature on the subject can be expected during the next few years. I would hope that this literature will address the question of how the debt arose in the first place.

The answer to this question is not known. Curiously, the problem has faced both oil-exporting countries (Mexico and Venezuela) and non-oil-exporting countries (Brazil) as well as countries that produce, but do not export, oil (Argentina). For countries that do not export oil, it has been suggested that debt arises from the increased price of oil. For oil-exporting countries, the debt allegedly arises from having overborrowed in the expectation of further revenues that did not materialize because of the oil glut. But because each category also contains countries that do not have serious debt problems, neither explanation is sufficient.

In classical commercial-loan theory, it is assumed that businesses borrow for productive purposes and that the debts will be serviced and amortized through the proceeds of their projects. Some might argue that LDC governments assumed their debts with these principles in mind but that the debts soured because of the worldwide recession. This explanation is weak, however, because the scope of debts was far greater than might be explained by normal productive borrowing and the recession was not so deep as to bring governments close to bankruptcy all by itself.

So one turns to a second explanation. Since medieval times, sovereigns have borrowed on the strength of expected tax revenues. Sovereigns have sometimes gone bankrupt when the expected revenues did not materialize (as did Edward III of England in the fourteenth century). Yet the myth that sovereign governments always pay their debts has been sufficient for the world banking system to expand its loans greatly in recent years, with sovereignty, rather than commercial validity, as their security. But even this explanation is not enough. Why did the debt crisis happen now?

We do not know the answer to this question either, but I would like to pose a hypothesis to challenge future writers. According to this hypothesis, third-world governments have increasingly undertaken enterprises on their own account that have traditionally been in the private sector. Each time an activity is nationalized, that much borrowing passes from security by productivity to security by sovereignty. Added to this trend is the lack of accountability of sovereign governments in Latin America (what government would be voted out of office for financial irresponsibility?). Security by sovereignty can only bear so much weight; at some point, the threshold is reached. Then, an "unexpected" event, such as a world recession, occasions the collapse. Then again, recessions happen regularly and ought to be expected.

The International Monetary System

Greater influence for LDCs in the international monetary system is another of the demands of the NIEO. This point is especially relevant because of the IMF's current insistence on stabilization programs in conjunction with debt renegotiation. But the crisis is so recent that it has not yet invaded the scholarly literature, although it is a hot topic in the newspapers.[1] If my hypothesis is accepted, then the debt problem arises out of borrowing by governments for development projects beyond their capability to manage. Also, the proceeds of borrowing have been paid out in corruption (how much corruption and how much valid investment is unknown because of the lack of governmental accountability).

Who should bear the consequences of this situation? One thesis holds that an IMF stabilization program puts the burden on the poor. True, but the burden would be there anyway. Whenever profligate governments undertake projects that can survive only as unprofitable monopolies or through subsidies, many individuals become employed in those projects and (through multipliers) in activities dependent on them. The initial projects fail when the government can no longer subsidize them or when the monopoly becomes overbearing. At this point, thousands of people—in both the projects and multiplier activities—become unemployed. A time of trouble follows until sound projects are found. The IMF argument (to which I subscribe) is that although the IMF may have precipitated the unemployment by causing the government to face up to its irresponsibility, the underlying irresponsibility was what caused the suffering. The earlier that governmental irresponsibilities are faced, the less the ultimate sufferings will be.

I do share the general unease about the IMF, but for a different reason from those usually discussed. In my view, the IMF is behaving like a pater telling his children how to behave, rewarding them if they live "properly" and withholding favors if they do not. For all the economic sense that IMF prescriptions make (and they do make sense), I question whether the long-term economic development of Latin America is best served by IMF paternalism. The same reservation applies to the World Bank and its "structural adjustment loans."

The Accountability of Governments

To my mind, the major delays in Latin American economic development stem first from the lack of financial accountability of governments to their citizens and second from the diversionary tactics of blaming the problem on the outside (on "imperialism" or "decisions made abroad" or "dependency"). The lack of financial accountability has enabled government officials to continue their corruption, to operate inefficient enterprises, and to incur inordinate debts secured by sovereignty rather than productivity. All these factors have led to a vast waste of resources. Blaming the world environment or the MDCs has helped restore the dignity of Latin Americans and (momentarily, anyway) the credibility of their governments but at the expense of addressing the basic problems. Finally, the IMF has widened the breach between governments and their citizens by demanding that governments become accountable to it rather than to their own citizens.

It is time that economic development came "home" to seek its causes and its roots. More attention needs to be paid to the classical theories, which are still powerful. A reexamination of these theories might automatically address the problem of accountability that is unfortunately now ignored in the development literature.

NOTE

1. See, for example, a typical letter to the editor of the *New York Times* titled "IMF Obstacles in Latin Democracy's Path," 8 July 1984. Other articles on the IMF were printed in the *New York Times* on 14 Mar. 1982, 6 Sept. 1982, 16 Dec. 1982, 9 Jan. 1983, 13 Jan. 1983, 21 July 1983, 17 June 1984, and 21 June 1984. See also the *Wall Street Journal*, the editorial of 16 May 1984, the reply by Azizali Mohammed of the IMF, 21 June 1984, and the article by Irving Kristol of 16 July 1984.

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