would suffer further declines in short-term trade financing and if it wanted to finance some large and badly needed development project, it would be hard pressed to locate external credits. . . ."

Finally, Taylor elaborated current U.S. policy, which he defined as "growth with adjustment": 1) continued support for debtor "adjustment" programs; 2) continued full support of the IMF and World Bank in their "vital role in assisting nations to implement stabilization and adjustment programs"; 3) greater use of World Bank "structural financing"—with standard IMF conditionalities written in; 4) promises of renewed efforts by the industrialized countries to keep their markets open.

Peruvian Labor Minister Blancas Bustamante commented to the Spanish news service EFE that Taylor's statements were a "veiled threat" against Peruvian President Alan García's position on the debt and on the IMF. Said Blancas, "If a country leaves the framework of the IMF, its credit and all sorts of financial support from the other countries of the world is restricted." The Peruvian minister asserted that, should this be the response to Peru, his country would appeal to the "international solidarity" of friendly countries around the world to assist it.

'Black Death of the 20th century'

In a separate paper released to the conference, entitled "Humanity on the Brink of Disaster," Colombian minister Carrillo emphasized that epidemics of diseases like AIDS, malaria, cholera, polio, etc. are a direct result of IMF conditions imposed on the Third World.

"Both Africa and Latin America are victims of the economic adjustment programs formulated by monetary authorities to guarantee payment of the foreign debt service. The United States and Europe themselves are now beginning to be faced with the serious consequences of these same adjustment programs," he said.

"Insistence that the payments crisis be resolved only through import cuts and export increases has had one consequence: that the Latin American countries and the rest of the Third World have been forced to export their food production and restrict imports of basic raw materials necessary for the production of indispensable drugs, vaccines, etc.

"Adjustment programs applied to reduce our budget deficits have forced our continent to eliminate almost all attention to health services and basic hygiene. . . As a result an unusual growth in the infant mortality rate has occurred from malnutrition stemming from lack of food, disease stemming from lack of medical attention, and epidemics as the logical consequence of both.

"Africa began this way a few years ago. Nonetheless, there was no compassion from the most powerful, and today Africa is a continent in agony. . . . Africa has today become a breeding ground for what has been called the 'Black Death of the 20th Century,' AIDS."

Documentation

Debt and the threat of disease pandemics

From the speech by Colombian Labor Minister Jorge Carrillo before the VIII Inter-American Conference of Labor Ministers, which met Oct. 7-11 in San José, Costa Rica:

Our Great Fatherland, from Mexico to Argentina, is faced with a critical situation: Either creative solutions are employed, or simple monetary formulas will aggravate the economic crisis to the point that the epidemics and pandemics currently raging across Africa and wiping out millions, will be but a pale promise of what awaits Ibero-America.

The challenges we face are great; the solutions, then, must also be great. Our subcontinent is home to 395 million people, of whom 130.5 million make up the economically active population (EAP). If the current rate of population growth is maintained, we will have a population of 532 million by the end of the century. The EAP will then be 190 million.

If we accept the calculations of the ILO [International Labor Organization], the average level of unemployment in Ibero-America is 8%, which gives us currently some 10.5 million unemployed workers. If we subtract these 10.5 million from the 130.5 million EAP, that leaves 120 million currently employed workers.

We must, however, also count among the number of underemployed, those who need new jobs. At least 25% of the agricultural labor force is underemployed, which gives us an additional 7.5 million workers who require employment. If we subtract this figure from the total of currently employed workers, we are left with 112.5 million, the real employment figure for 1985. If from the 190 million jobs that will be needed for the year 2000, we subtract the 112.5 million that currently exist, we will need to create 77.5 million more jobs by the end of the century. At least one-half of them should be in the industrial sector. . . .

To address this great challenge, we must abandon artisan methods and incorporate ourselves into modern life. We need machine tools to produce machine tools, mechanized agriculture, and great infrastructural works. Labor productivity will only increase if we use capital-intensive methods. With the current rates of growth, we will never escape underdevelopment.

We must analyze the true causes of the economic crisis, since until now the only thing anyone has done is to describe the crisis. High rates of interest, deterioration of terms of trade, and flight capital have been responsible for the cancerous growth of the foreign debt. In 1984, the region's foreign debt rose to $355 billion. If we discount the three factors I mentioned, the real debt would not come near that figure.

To pay debt service, we have contracted the real economy to such a degree that the bankruptcy of industries and growing unemployment have become the breeding ground for a social holocaust of unforeseen consequences. Our political parties and our democracy are destabilized by the "adjustment programs" of the financial institutions. In this kind of situation, all kinds of extremism find fertile ground. . . . The measures that have been implemented, apart from being short-term, have had but one purpose: generating resources to service the foreign debt, without taking into account the investment needs of the nation nor the consumption needs of the population.

The deans of international finance may think they can impose this kind of policy with impunity. The truth is that we are about to reach an inflection point, in which the downward spiral in which we have been trapped will become even more accelerated. Neither our biosphere nor our social and political institutions will withstand this deterioration.

What we are witnessing is not another Depression like that of the '30s. What we are allowing to occur can only be compared to the Black Death which, in the 14th century, finished off half the European population. The deadly AIDS is but a harbinger of what is to come. If we persist in defending and justifying usury, we will not be morally fit to survive, nor shall we survive.

Regarding the internal weaknesses of our economies, the main problem is the colonial structure of our production methods. Despite the wars of independence which were fought at the beginning of the last century, we continue to produce unprocessed raw materials for export. We escaped the Spaniards only to fall into the clutches of British free enterprise.

The common factor of all these so-called "strategies for development" has been to prevent the creation and consolidation of a solid capital-goods sector in the region, while destroying any possibility of generalized mechanization of agriculture. We never speak of the infrastructural works required. The subcontinent continues incommunicado. The few railroads and highways that exist all lead to the coasts, to facilitate export of our raw materials. Our internal communications are still very backward. . . .

The development of our economies is continually linked to the "recovery" of the advanced sector. In fact, there does exist an interrelation among the economies of the world. Nonetheless, it would be absurd for Ibero-America to remain subordinate to the economic policies of the developed sector. Interregional trade must be fostered. We need an Ibero-American common market. It is embarrassing to note that only about 15% of the region's total trade is among ourselves.

Some of the great experts might argue, with a mocking smile on their lips, "But we have already tried regional integration, and failed. Look at the state of the Andean Pact. Why create false expectations?"

The truth is that the Andean Pact has been lawfully affected by the adjustment programs which, especially since 1981, have been imposed on the region. It is a matter of public knowledge that, between 1981 and 1983, 16 countries of the region had to submit to IMF conditions. The majority of them had to reschedule debt service with their creditors. The "liquidity crisis" that forced these adjustments was caused by two things: 1) the dramatic increase in interest rates; and 2) the drastic restriction of credit to Ibero-America, decreed by the commercial banks.

To service their debts, our countries had to generate trade surpluses, which were achieved by 1) accelerating the rates of devaluation, in order to cheapen the cost of their exports; and 2) slashing imports, including suspension of vital necessities such as capital goods. As the annual report of the World Bank (1985) admits: "Practically the entirety of the trade surplus generated was absorbed by net interest payments on the foreign debt.". . .

Regarding economic integration, the maxi-devaluations and the accelerated rate of devaluation—components of the adjustment programs—generated a ruthless trade war among the nations of the region. Everyone wanted to sell and no one wanted to buy. The result: Interregional trade declined abruptly.

In speaking of 1984, the World Bank shows great familiarity with the accomplishments of the adjustment programs: "Economic activity did not increase sufficiently to keep level with the increase in the region's labor force, and apparent unemployment was aggravated. Per-capita production declined by more than two-thirds. . . . Per-capita Gross National Product, adjusted to take into account the deterioration of the region's foreign trade during the period, declined even more, to levels that existed at the beginning of the 1970s. Trade among the Latin American countries has deteriorated by 22% since 1980. . . . Adjustment has been achieved at a high economic and social cost. Living standards have declined in the majority of the countries, and the impetus for development has suffered a pronounced deceleration."

Instead of using statistics and monetary percentages, let us look at what the impact of these adjustment programs has been from the point of view of the living standards of the populations: An increase of 1% in interest rates represents an increase of $3 billion in Ibero-America's foreign debt. According to a study by the Latin American Economic System (SELA), this same increase of 1% is equivalent to 17 million tons of grain. Given that the adequate sustenance of a single person requires one ton a year of grain, the 1% increase in interest rates affects 17 million persons a year.

According to a November 1984 UNICEF study, 40 million Ibero-American children between the ages of 5 and 18 have no home because their parents can't afford to keep them.

More than 10% of the total population of the subcontinent, our children have been transformed into beggars and lumpens who subsist upon garbage and theft.

In sum, we are facing the year 2000 with a deficit of between 77 and 100 million jobs, and any competent employment program must address this situation. Only industries stimulated by investment in great projects and facilitated by genuine economic integration can remedy the deficit.

The future of the continent rests upon our resolve and our action.

Venezuela and the IMF

From the speech of Venezuelan Labor Minister Simón Anton Paván to the VIII Inter-American Conference of Labor Ministers:

We attend this conference . . . in the name of the democratic government of the Republic of Venezuela, at a moment when a crisis of still unpredictable dimensions ominously marks the future of our nations..
global crisis, which embraces all facets of human existence, as well as a moral crisis, in which drugs, like an implacable termite, undermine our youth, the future of our society. . . .

It is obvious that each country has a different reality that defines its behavior; nonetheless, the problem of the debt, in all its dimensions and basic characteristics, has an unescapably collective character. In view of this, we are forced to adopt firm and resolute positions because, for us, satisfying the demands of the creditor banks cannot presuppose, nor could we accept, aggravating the precarious state of poverty of our people. . . .

Collaboration with the debtor is to the best advantage of the intelligent creditor, and in this sense there have been many forms of collaboration suggested by the debtors. Nonetheless we continue to encounter a lack of receptivity from the myopic and usurious banks in certain industrialized countries, immersed in an individualistic and dehumanized capitalism, and in rigid and inflexible international financial institutions imbued with cold and limited accounting concepts. . . .

The attitude of the international financial institutions regarding the problem to which we refer must go beyond the technical exercise of suggesting adjustment measures which in practice mean having a greater flow of foreign exchange to pay debts, but at the cost of affecting the economic indicators which deal fundamentally with the welfare of the workers. . . .

Venezuela has declared and ratified its readiness to meet its foreign commitments. We have just reached a refinancing agreement with our creditors, which was done without the intervention of the International Monetary Fund. We are including a contingency clause which anticipates changes in the event of special situations stemming from accidents or *force majeure*, or in the case of substantial economic changes which modify the basis of the agreement; that is, in no case does our express readiness to honor our obligations mean sacrifices which limit the viability of our country's economic and social progress. We believe that this clause which we negotiate today should be a universal norm in all refinancing agreements that the developing countries carry out in the future.

The State Department line

Remarks by U.S. Deputy Assistant Secretary of State for Inter-American Affairs Paul D. Taylor, during a round table discussion on the foreign debt, held Oct. 8 under the auspices of the VIII Inter-American Conference of Labor Ministers:

A major question facing Latin American and Caribbean countries is how to achieve sustainable, balanced economic growth while continuing to service their debt. This requires the reduction of tremendous structural and policy barriers to growth. . . .

The [OAS] paper entitled, "The Social Impact of the Financial Crisis in Latin America and the Caribbean" . . . supports our view of the need for structural adjustment over an extended time period among the countries of the region.

The authors of the paper recognize that a large debt was contracted in an effort to prolong the high levels of economic growth of the 1960s and early 1970s. . . . The high rate of borrowing postponed the inevitable adjustment and made it more difficult.

Much of the borrowed money did not go to truly productive investments. It often contributed to a high level of consumption, and some was wasted.

Despite strong growth last year in some countries . . . overall per-capita product was roughly stagnant in the region. . . . The continuing high population-growth rate has contributed to this result and is expected to continue to absorb huge amounts of resources and detract from absolute and per-capita growth.

The paper . . . recognizes that inefficiency is often fostered by excessive protection of domestic industry. Capital-intensive technologies using imported raw materials and other inputs (as well as an imported technology itself) have not contributed to balanced growth or created the number of jobs needed, and have made Latin American economies vulnerable to external shocks. . . .

I might add that the role of labor has not always been conducive to economic development and sound policy formulation. Labor has often insisted on devoting large resources to consumption. . . . In some cases, labor policies have been more appropriate for advanced industrialized countries than poor countries struggling to begin industrialization. Numerous strikes, legislated wage settlements, overly restrictive legislated personnel policies, and other practices have inhibited investment, and made it more difficult to compete with more efficient producers. . . .

A separate factor which has hurt the external accounts, putting pressure on currencies and dampening private investment, has been the flight of capital from Latin America. One hopes that ongoing reforms will restore the economic conditions that will attract that capital home. . . .

We disagree with some of the paper's conclusions and recommendations. It is misplaced emphasis to say that the burden of adjustment has been borne to date exclusively by the debtor nations. International banks have in fact suffered a reduction in income, as compared to what was originally contracted, and industrialized countries have adopted policies to ease the adjustment burden. The United States has suffered from the worldwide recession and loss of exports. While it is clear that countries cannot devote more than a reasonable amount of their export income to debt service, an arbitrarily low limit such as some have suggested is not desirable.

Some have suggested that countries could unilaterally determine the manner in which they would service their external debts. This approach may appear appealing at first glance. A country might be able to save some money in debt payments, but there would likely also be adverse consequences for the debtor nation. It would suffer further declines in short-term trade financing and if it wanted to finance some large and badly needed development project, it would be hard pressed to locate external credits. . . .

Expanding the resources of international financial institutions so that they can increase assistance to debtor nations is desirable, but we have to recognize the political reality that it will be difficult to obtain. Likewise, external factors such as protectionist measures in developed countries and vulner-

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—Jorge Carrillo

ability to raw materials prices are difficult to control.

On the other hand, interest rates have fallen considerably in recent months, and this is already saving billions in interest payments from what had been projected. . . .

We do not believe in a general rule that expanding government expenditures is going in the right direction. . . . In general, Latin America must reduce the dominance of the public sector and must improve the investment climate for the private sector. . . .

The United States is seriously concerned about the severity of economic problems in the region. Because of our concern, we have since the onset of the debt crisis in 1982:

- supported adjustment efforts by debtor nations;
- sought, through growth in our domestic economy and the maintenance of open markets, to encourage exports from the region, as long as such exports are not encouraged by unfair trading practices;
- supported the strengthening of existing institutions such as the International Monetary Fund and the World Bank, and better donor coordination;
- encouraged prudent and flexible lending and scheduling by commercial banks; and
- provided emergency infusions of liquidity when necessary such as in bridge loans to IMF disbursements.

. . . Recognizing that these countries must return to a long-term growth path, . . . many believe that we have reached a new stage in which debt management should have a greater emphasis on economic growth. This is the view of the United States government and, as announced by Secretary of Treasury Baker in Seoul yesterday, the U.S. will promote a strategy which might be called "growth with adjustment." It includes the following points:

- greater use of World Bank Structural Adjustment and Sector Adjustment loans. These are fast-disbursing and long-term, and, also, conditioned on fundamental structural reforms in the recipient country. . .;
- use of World Bank co-financing arrangements to encourage new loans by the commercial banks;
- renewed efforts by the industrialized countries to keep their markets open, sustain their economic growth to the extent possible, and consider increased capital needs of the international financial instructions [*sic*] as this strategy is put into operation;
- generally greater resource transfers from the industrialized countries to developing countries, especially in the form of foreign direct investment. . . .

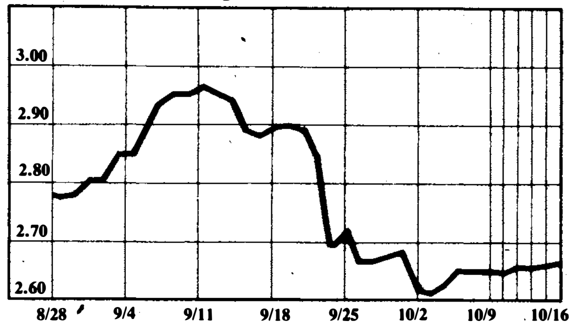
With or without the IMF, debtor nations would still face the same problems, and without its financial and technical assistance, countries would have to adjust more abruptly under even more adverse circumstances. . . .

We support the IMF and the World Bank in their vital role in assisting nations to implement stabilization and adjustment programs. . . .

Currency Rates

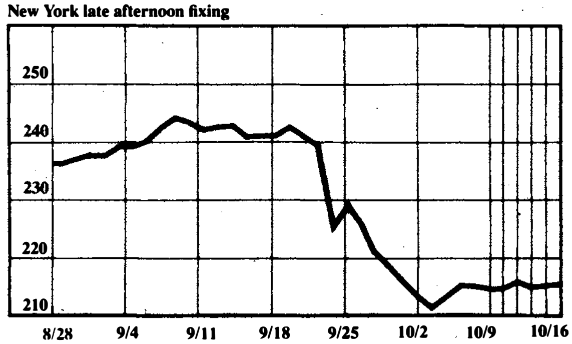
The dollar in deutschemarks

New York late afternoon fixing



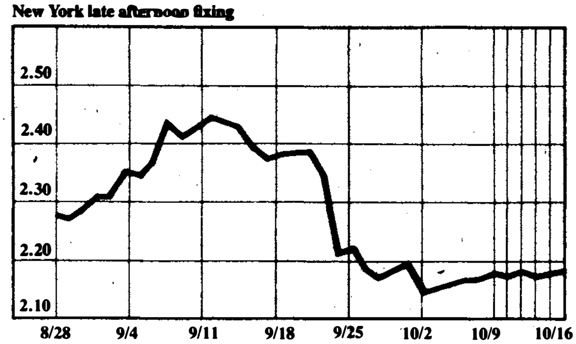
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing