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STRUCTURAL ADJUSTMENT IN LATIN AMERICA

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Preface

The impact of the Persian Gulf crisis on the nations of Latin America cannot be underestimated. The rise in oil prices brought fears of increased inflation and demands for more government spending at a time when most of the region's nations are trying to maintain sound fiscal policies. The oil exporting countries must face the opposite problem of justifying austerity programs in the face of windfall oil profits.

Given the complexity of these issues, the Latin American Program of the Woodrow Wilson Center invited Dr. Rudiger Dornbush, noted Professor of Economics at the Massachusetts Institute of Technology, to lead a luncheon discussion on structural adjustment in Latin America. The luncheon proved to be an enlightening analysis of the difficulties facing the continent, and a fascinating debate on the best approach to take in dealing with them.

The event was held on Tuesday, November 13, 1990, as part of the "Economic Issues Series," the Program's occasional forum for debate on current economic issues in the region. Professor Dornbush's presentation was followed by a general discussion involving participants in the event. The following is an edited transcript of the presentation and the ensuing discussion.

STRUCTURAL ADJUSTMENT IN LATIN AMERICA

What I would like to do is ask: What are the changes that ultimately must occur in Latin America? Why is their implementation is being delayed?

People talk about Eastern Europe diverting the world's capital because of the new and exciting changes in that part of the world. Meanwhile, they say, Latin America is falling behind. I do not think that this should be our worry. When we take a close look at the Eastern Europeans, we see that they are having a hard time staying afloat and may be collapsing completely. But the serious risk, of course, is that Latin American reform does not move fast enough and, as a result, becomes unpopular. If it does become unpopular, then those economies will decline further.

I want to distinguish between Mexico and Chile and the rest of Latin America. I want to draw a line between countries where people have decided that running a reasonable economy is really the only way to do business and those countries where people have not quite made it around to that view. Or maybe they have accepted it the way that a drunk accepts that drinking is really not a good idea, but somehow has not been able to put the bottle away.

I would like to address seven key areas in which Chile and Mexico have been successful, while the other Latin American countries have failed to progress.

The first area is macro-stability. This does not mean a Swiss inflation rate of two percent per year for a century, but rather a moderate rate of inflation. Twenty or thirty-percent per year is a good example, but not 5,000 percent annually one month, followed by two and a half per cent the next -- and not measured by the week rather than by the month or the year.

How do you achieve macro-stability? I think it is perfectly clear that you must have a balanced budget. There is extremely little room for unbalanced budgets if you cannot borrow either in the domestic capital market or in the world capital market. And for most Latin American countries, except for Chile and Mexico, that is the case today; they cannot borrow anywhere. Therefore, when budgets are unbalanced, it means money is being printed.

One might say that they are printing much less money than they did ten years ten years ago. The deficit is only roughly one and a half percent of Gross National Product, but the de-monetization of these economies is so radical that even a small amount of money corresponds to five hundred percent of the existing money stock. So, after being very vulnerable, as Latin America is today, even small deficits are a big problem.

How do you fix deficits? The answer is that the country must collect taxes. The more popular answer would be to cut waste in government. Certainly waste in government is pervasive, but that approach is very difficult, it takes time, is politically unpopular in many instances, and public officials are already paid very little. Therefore, even a massive campaign of firing will make little headway. The promising strategy is to have a normal, civilized tax system.

In Peru, taxation has fallen from fifteen percent of GNP to three percent. Why has this occurred? The answer is that the government stopped collecting taxes and inflation eroded the yield from taxation. Moreover, public sector subsidization has reduced long-distance telephone rates to five percent of what they were in 1985. There is no rationale behind these moves, and they have produced a complete economic mess.

In short, fiscal reform, including reform of subsidies from the public sector, are really the priority. And not until this reform is in place will a country have macro-stability.

Is there a success story? Chile certainly experiences surpluses almost routinely. When there are deficits today in Chile, they are not a major problem any more and in Mexico, major efforts to bring public finance under control reduced the budget deficit on the spending side, improved tax collection, and led to the auditing of tax returns. One in ten returns is audited in Mexico today, so much so that now the government by statistical randomness -- not by design -- audits the relatives of the Finance Minister.

That is a good tax system. What is the prospect that other countries will reach this point? I think what one would notice is that the deficits are not as large any more. In Argentina, for example, there is a surplus, but the deficits have been wiped out in a very unproductive way with emergency taxation, mostly in the form of higher public sector prices. Peru, for example, has witnessed extraordinary gasoline prices. This is what produces the revenue to pay for the government and, of course, it does not last. Argentina, too, relies very substantially on emergency taxation rather than on normal taxation, or on a system in which everybody routinely pays moderate rates.

Even where the budget deficits have come down, I do not see that this will last because fiscal reform in a more thorough-going Mexican/Chilean fashion simply has not been implemented. Therefore, the vulnerability remains.

The second area of concern is regulation. The question is: Where is growth going to come from? One answer is that countries need capital inflows, the capital inflows translate into investment, and that provides good jobs at good wages. But if the capital inflows do not result, does that mean that a country can expect nothing?

The evidence from Mexico is striking. The Mexicans have figured out that their economy is so distorted, so awfully messed up, that just deregulating is the major source of growth. They estimate that it is worth ten percent of their GNP and that already 2 to 2.5% of this growth is on the way. The example that everybody knows is that of the trucks that must travel empty half-way, or that someone has a monopoly on glass containers and it happens that all food has to be sold in glass containers. People can collect fees from other individuals for no reason. These are all restrictions on entry into business.

This, therefore, is a critical area in which every Latin American country has a potential source of growth, an alternative to capital formation that is cost-free because the economies are so distorted. Venezuela and Brazil are good examples.

The third area is privatization, an area in which Mexico is doing extremely well. In Mexico, privatization is politically non-controversial and the country has sold perhaps six hundred companies, some of which are very substantial, while others are very small. But it is a routine operation. Every morning the Mexicans sell one company. The program is accepted, unchallenged, and it produces budget revenues. Over time, it also increases either the productivity of the restructured plants, and in this way contributes to growth, or reduces the budget deficit because those were companies that were heavily subsidized. If privatization reduces the budget deficit, it frees resources for public sector investment or it lessens, at least, the country's financial fragility.

There are two schools of thought on this issue. One argues that it is very difficult to privatize. The other, which I believe becoming predominant in Germany in view of the experience with East Germany, argues that, with regard to privatization, it is more important to do it quickly than to do it well. That is a crude way of viewing the situation, but I believe the second school is correct. Argentina, for example, which has given birth to two privatizations now, is totally exhausted. The Argentines do not even know what the third is, or if they know, they will not tell us.

Where is privatization going in Argentina? The country is in a terrible, terrible mess, and privatization surely has to occur. Why not just take the stuff and throw it in the air? Even politically, that approach is not an issue in Argentina. So privatization surely is the one area in which a country can learn from the experience of Eastern Europe, from the total failure of state-run economies. Latin American countries should face the issue of privatization and not worry about getting it exactly right, but rather, worry about getting it done.

And look at the Mexican record. I am certain the Mexicans made mistakes. I would be baffled if they had not, but the system works very well, to the point at which the government can even consider taking major firms like the telephone company and creatively putting it on the New York Stock Exchange for a seven or eight billion dollar investment. Ultimately, this became a possibility because the Mexicans have learned about the process.

The next area is trade. Latin America traditionally has had an extremely restrictive trade regime. Economic openness offers the attraction of not only cheap imports, but also of increased productivity as the economy draws on the availability of intermediate or capital goods from the rest of the world. This is how they can become more export competitive.

Trade reform is a very delicate issue because it means invariably that imports will increase. If a country has a highly restrictive trade regime, then removes it, the population will import more, and it then has to pay for those imports. In the long run, the gains in efficiency may well translate into higher exports that will allow payment of the bill. But in the short run this certainly does not happen.

The first two years of reform produce an exchange crisis, unless the country has enough good luck to have a trade surplus to start with or unless it has introduced a devaluation to accompany trade liberalization. Trade liberalization appears attractive, but to be unprepared for it, that is, to be without the necessary foreign exchange or trade surplus, is dangerous.

In Mexico, I believe the evidence demonstrates that, while oil may now get the country out of trouble, without oil there will be a severe trade problem. Too aggressive a liberalization has basically doubled the import level and left Mexico to choose between growing less, devaluing, or halting service on its debt. But the fourth alternative -- higher oil prices -- has emerged at just the right time to get Mexico off the hook. In short, trade liberalization is an area for which, unlike deregulation, you have to ask: What else must I do as I go along?

The fifth area of discussion is finance. Finance serves to mobilize savings for investment, to bring money that sits in Miami back to the country, or to prevent capital flight in the first place. There are two sides to this issue. One is the establishment of an efficient financial system that, in fact, collects savings and passes them on to firms that want to invest. The second is regulating finance in such a way that it does not become a US- style financial system.

There is a genuine tension here because the whole lobby effort -- domestically and internationally -- is aimed at avoiding all regulation. The last thing that Citibank wants is substantial, prudent legislation in Argentina because it diminishes the fun of banking. But if the country does not establish prudent laws, then the banking system will continually go bankrupt. It also will drain the federal budget because those bank deposits will be insured.

Financial reform, therefore, is central, but I am deeply concerned that there is insufficient prudent legislation to go along with it. The best example is perhaps Korea, which has tremendous difficulty putting some regulations on the books because the lobbies pressure the government to allow almost any financial transaction to occur virtually unrestricted and unreported. It is an area that is extremely touchy.

I conclude with two final areas that are not on the typical agenda, but which I think are extremely important. First, poverty needs a special answer. Do not believe that by implementing the correct reforms, the market will ultimately eliminate poverty. A country like Germany, for example, always has been part of a liberal market economy. But it also has has highly developed poverty programs that are not an offense to market forces and that do not pay people to be unemployed.

Second, is the issue of institutions. In Latin America there is a fantastic lack of institutions. If you invested, for example, you would not know who might steal your money, but you could be certain that there is no court that will get it back for you unless you pay the judge ninety-percent of what was stolen. And that is a problem because it means that all financial transactions or investments essentially become very short-term and highly protected. The investor does not receive the advantages of an economy that has solidly established property rights. I think that the precariousness of property rights, or of any institution, is a major difficulty. I believe international institutions do not pay enough attention to establishing an ideology about the stability of institutions.

I say that not too critically, but I would like to see increased stability of institutions as an extra item on the shopping list of reforms for Latin America. Institution-building is, of course, a major issue in Eastern Europe today. A country must not only have property rights, but also some reasonable system of enforcement. In East Germany, there are seven million claims for property refunds that are handled by twenty people, which means it will take into the middle of the next century for those claims to be reviewed. Time comes to a halt until a system is put in place.

In summary, Latin America, with the exception of Chile and Mexico, continues to be a mess. One cannot say that either Brazil or Argentina have turned it around. In Argentina, one may well expect that the vastly over-valued exchange rate will become a problem at the beginning of the next round of instability. If not, the interesting question is how to get off the tiger's back.

In Brazil, the over-valuation is even more extravagant, and it is only because Brazil is so over-valued that Argentina is still okay today. But when one collapses, the other will go with it. In both countries, fiscal reform has not occurred on a substantial scale, although the budgets look good as a result of the emergency measures. Privatization is very timid. Deregulation has not started on a substantial scale. Financial reform must occur. At present, the financial systems are highly unregulated. Lastly, trade reform at over-valued exchange rates without doubt would immediately contribute to a recession.

Argentina and Brazil look good compared to Peru. What comes next for Peru? Civil war is one possibility. Hyper-inflation is certainly an extremely good possibility. Peru is one country that is completely on fire. Any bad news there would not be a surprise.

What can Latin America learn from Eastern Europe? First, the Latin Americans should write off their debts before they become an albatross around their neck. Hungary has a crazy fetish about servicing totally their debt. The world looks at Hungary and says: 'What the hell are you doing?' The Hungarians have a crazy finance minister. Latin America had the same type of people for a while -- officials who said that every penny of the debt had to be paid. The debt, however, should be removed quickly, while creditors have the good will to accept write-offs.

Second, in democracies, all successful stabilizations have involved some special legislative procedures -- essentially full powers for the Executive in the economic arena. Without it, a country will not succeed in the macroeconomic area -- much less if the entire structural area must also be revamped. Even giving full power to the Executive may not help. In

Peru, the government has the right to issue supreme decrees. But somehow the government has not yet issued one that collects taxes.

Third, I return to the issue of institutions. Ultimately, world capital has enough safe places to go; it does not have to go to Argentina or somewhere else in Latin America. Investors can easily bypass the continent, in the same way that they have bypassed Africa for twenty years, with very visible results. Therefore, unless countries establish a system of enforcing, cultivating, and guarding property rights, they really have no chance of achieving sustainable growth.

What can be said if one wants to be optimistic? One could say that Mexico after four years of reform is on the verge of a fantastic boom. I would not be surprised to see ten years of six percent growth as the Mexico-U.S. free trade pact comes into effect. All of the reforms are popularly accepted to the point that, when opposition leader Cuahtémoc Cárdenas was asked what he thought of the changes, he responded that he would have to do the same. In this sense, the idea that such reforms are politically impossible is probably the biggest silliness of all in Latin America.

To conclude, I think we can find optimism from the case of Mexico. The pessimism is drawn from the reality that democracy is practiced so terribly, which is probably Latin America's greatest difficulty.

DISCUSSION

Please Note: Because this event involved several officials of foreign governments and international agencies, it was treated as being "off-the-record." Due to the unusually rich nature of the exchange and the importance of the subject matter, however, the Latin American Program is presenting this summary without identifying the speakers. Our goal is to capture the essence of the discussion.

The initial discussion revolved around the Argentine privatization program. One participant argued that the Argentine program is as intense as any in Latin America. Perhaps, the participant suggested, the Argentine government can be criticized for not going far enough and for not doing it properly, but the country was beginning to discover that if privatization is done incorrectly, it can be inefficient. Rushing to privatize called into question the type of commitments the country makes, particularly with regard to monopoly rights.

Nevertheless, the participant continued, a nation's Minister of Economy might agree almost completely with Dornbush's statements, but it would be very difficult to state publicly what Professor Dornbush says. The Argentine government is trying to take the steps he proposes; there would not be any disagreement about his diagnosis.

Dornbush then asked: "Why can't Argentina do what Mexico is doing?"

The response was that Mexico has had four years to implement these changes, while Argentina has had only one. Also, the changes require time and in Argentina, at the beginning of former President Alfonsín's administration, there was no consensus built around these reforms. When they were first introduced, they were seen as controversial; today, this is no longer the case. In fact, to establish these regulations in one year has been a major achievement. And now all of the state-run companies, without exception, are subject to privatization.

Several commentators insisted that the nature of the political regime had a lot to do with the pace of privatization in Latin America. The Argentine democracy was fragile and the government had to proceed with caution. In Mexico, the government could act with greater autonomy.

Dornbush disagreed with this point and stated that he thought that Mexico would have a clean election in August and that the problem of democracy would be resolved. He questioned the effectiveness of Argentina's democracy. Argentina has three million people fed at soup kitchens and its citizens have fifty billion dollars stored in Miami. Argentina has never had worse inequality, Dornbush continued. And yet, the Argentine response to the situation is that this is what democracy produces.

During a discussion about the efficacy of former President Alfonsín's administration, a participant noted that Alfonsín established -- or re-established -- democracy in Argentina, which was a great achievement, after thirty years of non-democratic government. But he also started a discussion about an economic turnaround that the country has now adopted. Furthermore, Alfonsín will be very well-remembered. Clearly, at the end of his term, he mismanaged everything. The economy was a disaster, but one of the reasons that this was so was because the Peronists were about to win. Everyone was afraid of how the Peronists would behave. Then they won and acted very differently from the way many feared. Such a change in the popularly-based party is a great achievement. One of the great breakthroughs in Argentina, the participant added, was the defeat of the military and the defeat of the Peronist party.

The third great event for Argentina, the discussant continued, was the victory of the Peronist party in 1989 and its change in behavior. The Menem administration is like Spanish Prime Minister Felipe Gonzalez's was at the beginning of his government, but with a much worse economic situation. The situation is so bad in Argentina that even a statist party like the Peronists can change its mind completely. For the reasons Dornbush mentioned, the economic disaster is extreme. Mismanagement of the economy had been extreme. It is so extreme that the same people who were once pushing state ownership now want to sell it off. The government has witnessed the consequences of a state-run society.

Dornbush responded that if Argentina had not changed its ways, it would have been the only country other than Cuba not to have done so. It is not really Argentina that decided to change, he added, rather it is the rest of the world that has made it totally impossible for the country to continue on the same path. While one participant stated that everyone supports privatization, the reality is that there is no timetable whatsoever for carrying it out.

This was denied; there is a timetable for at least nine of the major secondary companies in Argentina. Dornbush asked if these plans were actually being worked on, and was told that tenders are to be sent out in April for the nine. The companies are being restructured and prepared so that tenders can be made for privatization. Argentines support the program but, as strongly indicated by the August 5th election, especially in Buenos Aires province, they reject the political process to a great extent. In view of the constitutional changes that were proposed for Buenos Aires, it was the same old game -- letting the state take a lead role. The Argentine people, however, by sixty-seven percent in Buenos Aires province, said "No".

According to a participant, such a situation is very dangerous. The economic reforms are real and to an extent they were forced upon Argentina because the country had no choice this time -- unlike the last fifty years during which they had escape valves. At present, one cannot see a political realignment taking place, although there are indications of one. Former Radical Party presidential candidate Eduardo Angeloz's economic program is, to some extent, being imposed by President Menem, but there have not yet been clear indications of a realignment. Also, the participant noted, if a realignment does not appear by the next round of elections, there are going to be real political as well as economic problems.

It was suggested that Peronism was breaking up and also the Radicals were dividing into factions. Those two groups are going to search for ways to work together. Dornbush then asked whether something was wrong with a political system that allows a party to split and realign. In response, it was argued that a realignment would not occur unless the political parties were willing to allow the politicians to represent their constituents. In other words, there must be direct relationship between being voted into office and carrying out policy.

Several participants indicated their general agreement with most of Dornbush's remarks, in particular the idea that long-term macroeconomic stability should be the first priority in dealing with adjustment problems. They were pleased to see such points mentioned because they are of tremendous importance to Africa and now Eastern Europe, as well as Latin America.

They applauded his having mentioned, for example, the question of establishing a regulatory system. In most of Latin America, the current regime is in horrendous shape. In Mexico, for example, in order to export, a truck must load and unload its cargo in every state. A truck that has to go through seven states before the border would have to be loaded and unloaded seven times. The need for institution-building and for stronger regulations within those institutions was another item on Dornbush's agenda that was praised.

This issue of trade regimes was also a topic of discussion, during which it was pointed out that the trade deficit in many countries is more of a macro problem than a question of trade. A large increase in imports in these cases is due to failed macroeconomic policy or to the lack of fiscal adjustment that creates the large demand for foreign products. These problems need to be addressed first. There is a danger in trade liberalization, especially if the correct macro policy is absent. If that policy is non-existent, then trade liberalization should not be attempted. But if the macroeconomic policy is in place, then it, as opposed to the trade policy, will help in dealing with the trade deficit problem. There was broad consensus that in many countries, unambiguous action is needed up-front to provide a clear signal that the country is moving in the right direction. The important point is for the country to demonstrate that it is moving in that direction, and then to begin doing it.

With regard to poverty, it was noted that the World Bank is deeply involved in the question of the poor and is increasing its focus on that area. There is a lot of hope riding on President Bush's Enterprise for the Americas Initiative. Dornbush was asked what his reaction was to the initiative, given that there have been meetings among Latin American presidents about how to respond to the plan. It was suggested that Latin Americans see it primarily as an important assurance of access to the U.S. market. Many countries are very nervous that if they become successful in some area, they will find restrictions on their exports. Even Chilean fruit now faces a lot of potential restrictions on access to the U.S. market.

Dornbush responded by referring first to the issue of the trade regime. He stated that there are a couple of parts to the question. A country can remove all quotas and implement a uniform tariff, but that tariff has to be high, unless the country is certain that it has a large trade surplus to sacrifice or that it can also devalue simultaneously.

Devaluations are not as easy to do as they are inconvenient. If possible, a country can maintain a fifty-percent tariff until its economic situation has settled down. Germany, Dornbush continued, did this in the 1950's and it was exactly the correct strategy. A fifty-percent tariff is very high, but compared to what exists now it is wonderful.

Dornbush stated that he would pay a lot of attention to import penetration that is strongly resistant to exchange rate fluctuations. Looking at East Germany today, at the retail level, at what is sold in the supermarkets, the lowest import penetration is thirty-five percent for margarine. From there on, it is eighty-percent for detergents and ninety-percent for chocolate. East German consumers, therefore, are buying at least fifty-percent of the West German consumption basket. They are not selling anything in West Germany because nobody has ever wanted to buy East German yogurt.

The imbalance, therefore, continues to exist. In Mexico, it is correct economically-speaking that the population is using U.S.-produced toilet paper. This is so because there is enormous, rapid import penetration, which increases to the extent the country watches the television commercials of its neighbors. This means that the country must devalue its currency.

Dornbush then raised the question: Should countries therefore institute a large cut in the real wage so that some exporters earn enough to pay for the individuals who want to consume imported chocolate? Is that an important initial program? Or does the country prefer in the first phase the benefits of inputs for industrial production and technology -- leaving the chocolate for later -- given that real wages are as delicate as in they are in Mexico?

Dornbush stated that he believes it is a bad idea to support some people getting the right chocolate when the cost is a large real depreciation. On this issue, he added, it pays to be careful not to reduce the tariff too much at once. Also, the devaluation should be thought of as a real wage cut; that is really what it is.

About the Bush trade initiative, Dornbush said that he, like everybody else, knows nothing about it. The rumor, he stated, is that when interested people called the State Department and asked for the office to contact about the plan, they discovered that one did not exist. The Bush initiative is absolute wind, and there is nothing behind it, other than framework agreements of the kind that Mexico received three years ago.

But a framework agreement, Dornbush continued, is not the key to a free-trade agreement. The plan for a free-trade agreement with Mexico was created by the Business Roundtable, not by the Bush Administration. It was almost forced on the Administration at the last moment as President Salinas de Gotari was traveling to the United States to give his speech.

As he understood it, Dornbush added, an individual who headed a task force developed it but public opinion was seen to be against it. After some discussion with U.S. Trade Representative Carla Hills, Secretary of

State Baker approved it. The Commerce Department said that it would take responsibility for the plan because it had the personnel to do it. The initiative occurred at the last moment. The change in Administration opinion literally happened between Thursday and Monday, and it was not something that had been thought out carefully. The plan came about as a result of Salinas's visit before the Business Roundtable, when five hundred corporations said they thought it was wonderful.

And it is difficult to say that it is not wonderful, Dornbush added. The question is: Will the rest of Latin America get it? The Bush Administration will be very careful when it goes to Congress. It is doubtful that Administration officials will argue -- in a recession -- that the agreement is wonderful since all of Latin America will eventually be competing with U.S. unions.

But Dornbush stated that he did believe that by the year 2000, a Western Hemisphere free-trade agreement would be in place. The issue today is how the process should proceed. Today, the chief motivating factor for an agreement is massive migration, which is creating an important lobby. That lobby argues that if the U.S. does not take their goods, it will have to take their bodies. Migration is occurring in every city and every city mayor is telling the federal government to keep the migrants and their families out of their town.

There is, therefore, a constituency which is very close to labor and which is arguing that the U.S. cannot cope with migration. In the end, Dornbush continued, there will be great pressure for the Western

Hemisphere free-trade agreement. The United States may be a bit stampeded into it. This would be similar to the way that the Bush trade initiative developed, which was just a declaration made in order to say something positive to Latin America as Europe was embarking on its new economic order. Dornbush concluded that he would be amazed if anything tangible now existed within the Bush Administration.

Dornbush was taken to task for failing to give justice to subtleties and specifics, and for making easy generalizations. He was criticized also for the implicit corollary of what he suggested, that the countries do not reform because Latin American governments are either completely incompetent or corrupt -- or both.

In this context, the issue of governance was raised again. When, it was asked, was the last time the Mexican Executive Branch proposed a bill to Congress only to have it rejected? This was seen as having much to do with this issue. The issue of pace and sequencing of structural adjustment has to do with the ties between economic policies and government. Dornbush was asked if even perhaps poor Peru probably now has the right sense of direction for reform, but is hampered in terms of the sequence and pace of the changes.

It is not simply a matter of democracy and non-democracy. The issues become blurred when parallels are drawn between democracies and non-democracies versus market-oriented and non-market oriented countries. Also, the discussion continued, in some countries of Latin

America it would be very difficult to recruit ministers to carry out such a policy of rapid privatization because they might end up in jail!

Dornbush responded that Latin American reforms have not been implemented because of a lack of will, not a lack of legal authority. President José Sarney of Brazil received at one point nine months of rule by decree, but failed to act. On the last day of the emergency rule, he told the Congress to do it. Peru has that authority now. But President Fujimori, like former President Alan García, uses it for the wrong reasons. Mexico has always had the authority, while in Argentina, an accord was reached between the Radicals and the Peronists, but former President Alfonsín did not use it until it was too late.

Several participants urged a more optimistic view of the same panorama. For the first time in thirty years or so, there is broad agreement on economic policy. For the first time, most of the political parties are thinking along the same lines, supporting democracy and attempting to resolve the problems of democratic governance. Latin Americans are thinking the same way economically and politically. The extreme left and military regimes are dead. The challenge today, they argued, is to garner political support to ensure that the reforms are enacted. The is no disagreement on the path to take.

Dornbush pointed out that public spending has declined dramatically in Latin America. The problem, he said, is the tax loss. Taxation has fallen much farther throughout the continent, despite the need for more spending on areas like education. In Peru, for example, spending for education is especially low.

A participant asked Dornbush to discuss his view on what state Latin America will be in after the 1990s, at the start of the next century.

As for the future, Dornbush responded, by 1999, observers will be talking about Brazil and Mexico, Brazil because the situation can be turned around quickly -- and easily -- to produce growth. It is unfair, he added, that Brazil has such as easy time due to the size of its economy. Mexico will be a topic of discussion because it is so close to the United States and because labor wages there are low.

A free-trade agreement will be established with the U.S. because it has business support and because President Bush will not be able to resist it. Latin America will complain about these two countries but, if a nation has a functioning democracy, it has to produce goods that can be sold. Peru may end up in a civil war. The question in Argentina will be the ability of democracy to function. In Argentina, no one wants change unless it is at someone else's expense.