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U.S.-Brazil-Mexico Study Underscores Privatization, Exports in Economic Growth

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According to a recent study co-sponsored by US, Brazilian and Mexican institutions, a lasting solution to the Latin American economic crisis requires a "clear movement to privatization" of the economy and dedication by regional governments to the development of appropriate business policies and the improvement of social services. This statement constitutes one of the major conclusions in a study titled, "Toward Renewed Economic Growth in Latin America" ("Hacia un Renovado Crecimiento Economico en America Latina") by economists affiliated with the International Finance Institute (Washington), Society of the Americas, the Colegio de Mexico and the Fundacao Getulio Vargas (Brazil).

The study was released on Sept. 16. The document suggests a three-point plan to reactivate economic growth in the region and to ensure the continuity of debt service payments. Economists from Brazil, Mexico, Peru and the World Bank proposed the adoption of this new plan for Latin America grounded on the channeling of greater quantities of financial resources to the export sector, in part via foreign capital flows. However, movement towards privatization is also considered essential to create necessary conditions for the promotion of economic growth.

The economists worked with the IFI, headed by Fred Bergsten, former US Treasury Secretary. Bergsten called the Baker Plan "inadequate," stating that it is incapable of resolving Latin American nations' foreign debt problems. The so-called Baker Plan requests that private banks and multilateral financing agencies provide $29 billion over a three-year period in the form of new loans to the world's principal debtor nations, 10 of which are Latin American.

Bergsten affirmed that Latin American debtors alone require $20 billion in new financing per year. He also emphasized that in many nations of the region, personal income is today at levels achieved 20 years ago, adding that since 1980 alone income has dropped 10%. The economists concluded that the region requires a strategy that places "special emphasis on exports and efficient import substitution policies." This focus, they said, requires that regional governments maintain respective currencies at "levels which permit their exporters to sell products," while also avoiding excessive import barriers.

Authors of the proposal declare that this strategy has been successfully employed in Turkey and in a large number of Asian countries. The same strategy could work in Latin America as well, providing that governments make a genuine commitment to efficient export growth and sensible import substitution programs.

The proposal was signed by Mexican Gerardo M. Bueno (former director of the National Science and Technology Council CONACYT, and currently a fellow of the Colegio de Mexico), Brazilian...
Mario Henrique Simonsen (former planning and budget minister, and head of graduate studies in economics at the Fundacao Getulio Vargas), Peruvian Pedro Pablo Kuczynski (former mines and energy secretary), and Bela Balassa (World Bank consultant, and IFI fellow).

The three points proposed by the specialists require the adoption of political, commercial and monetary reforms, with the objective of export promotion. These policies are in contrast to import substitution industrialization policies of the past. The proposal argues that only an "outward oriented" approach will permit Latin America to both restore economic growth while simultaneously obtaining export revenues sufficient to meet debt service obligations.

The second point of the plan concerns the application of new fiscal and financial policies to expand domestic savings and to improve the efficiency of foreign investment. Such steps are considered essential to "support the outward-looking economic orientation, in order to attract foreign capital and to reverse the capital flight tendency."

The third aspect of the plan proposes a radical change in the economic role of regional governments, and the adoption of a governmental role restricted to providing a "healthy business climate" and "better social services." At the same time, regional governments are called on to implement substantial limitations on their participation in the production of goods and services, and detailed regulation of the economy. With respect to government actuation, the document states that heavy public involvement in production and economic management has weakened the private sector in the countries with the most serious economic problems.

Private sector leaders are held partially responsible for this state of affairs, since they often seek assistance from the government in difficult times. As a result, they have contributed to the expansion of state power.

The document adds that the state in Latin America has assumed ever greater functions in the roles of regulator, producer and service provider, and has established a presence not always productive in all aspects of the regional economy. As regulator, the state in Latin American countries has often served to dampen private sector initiative. "In several countries numerous authorizations are required, including to initiate export activities," revealing a wholly incongruent attitude at a time when opening the economy to the exterior is necessary. An example of state "over-regulation" mentioned in the study is Peru where a group of entrepreneurs had to wait 289 days to register a new firm. The same company was registered in four hours in Miami.

In brief, the economists argue that the state as regulator has artificially increased the cost of doing business in Latin America. An example here is legislation that makes impossible or at least extremely difficult, the layoff of employees, even when cutbacks are necessary for the simple survival of the company. These and other costs effectively "block a large part of the potential for creating medium- and small-scale enterprises which should be the principal motors of production and creativity." The authors affirm that in these conditions, corruption flourishes, enterprises are obliged to spend enormous quantities of money to obtain what they need in inefficient bureaucracies, and governments have to spend enormous quantities of money to maintain the same bureaucracy. (Basic data from EXCELSIOR, 9/17/86)