

STABILIZATION AND ADJUSTMENT POLICIES
IN THE SOUTHERN CONE, 1974-1983

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A. Introduction

Two economic problems contributed to the political upheavals which gave rise to neoconservative experiences in Argentina, Chile and Uruguay: galloping inflation and disequilibria in their external accounts.

To be sure these three Southern Cone countries had long tolerated, if not learned to live with, inflation. Indexing was widespread, and most economic agents had long come to think in real, and not nominal terms. Yet the efficacy of such instruments was seriously eroded when triple digit inflation beset them. The costs of 600% inflation in Chile (1973), 300% in Argentina (1975), and close to 100% in Uruguay (1973) and the fear of hyperinflation made each of them, especially the first two, assign top priority from the very beginning to an anti-inflationary stabilization policy.

Yet not only were these countries beset with unprecedented rates of inflation, but with serious disequilibria in external accounts as well: the deficit in current account at the onset of the new regimes ranged from 20 per cent of the value of exports (Chile) and 27 per cent (Uruguay) to 37 per cent (Argentina); and their debt to export ratios were among the highest of Latin America at the time; 1.7 (Uruguay), 1.9 (Argentina), and 2.5 (Chile). Thus they had to tackle 2 major sources of disequilibrium right from the start.

1/ This is a chapter of a book entitled Stabilization and Economic Liberalization in the Southern Cone (ECLA, 1984 forthcoming). Hence, the emphasis is more on anti-inflationary stabilization than on adjustment.

The purpose of this paper is to analyze the stabilization and adjustment policies pursued by each; to establish at what cost, in terms of output and income distribution, these disequilibria were corrected; and to determine to what extent these costs were avoidable or not, and if so, what specific policies were responsible for these failures. It goes without saying that no policy is ever purely a stabilization or purely an adjustment policy. For the problem of internal and external disequilibrium often come together, as they did at the onset of these neoconservative experiences. Nevertheless, it is probably fair to say that in the first years, and especially in Argentina and Chile, the aim was stabilization, subject to a balance of payments constraint; whereas in the last years (1981 on) the aim was adjustment subject to an anti-inflationary constraint. Hence the analysis will stress the stabilization features of the first years and the adjustment process of recent years.

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B. The monetarist approach to stabilization: Inflation as a monetary phenomenon

The debate concerning the causes of inflation in the Southern Cone traditionally centered about two schools of thought: the monetarist and the structuralist.^{1/} Monetarism attributed inflation to an overexpansion of the money supply, normally the result of fiscal deficits. The solution was to correct such maladjustments and slow down the expansion of credit. Structuralists, on the other hand, while not challenging the general relationship between fiscal deficits, monetary expansion and inflation, affirmed that such an expansion was endogenous. That is to say, that the monetary authorities often found themselves forced to increase the money supply in order to minimize the impact on output of external disequilibria or of unexpected shortfalls in agricultural output. For example, the (allegedly) low price elasticity of exports and of agricultural output made these economies extremely vulnerable to disequilibria originating in these sectors. Hence, the attempt to overcome the negative consequences of such bottlenecks generated pressure to expand credit. The implication of such an approach was to argue that any attempt to eliminate inflation without overcoming structural bottlenecks in the economy would have either passing success or would lead to recession.

While it is true, as monetarists argued, that in the Southern Cone there has been a very close relation in the long run between the rate of inflation and the growth of the money supply, in the short run this has not been the case (see Table 1). The failure for this relationship to hold in the short run, naturally paved the way for the structuralists' arguments, that in order to stop inflation it would not be enough to reduce fiscal deficits and slow down the growth of money supply. Rather, because the velocity of money could fluctuate in a compensatory fashion and given the existing rigidities and bottlenecks in the economy, the deceleration in the rate of growth of aggregate demand (Mv) could slow either the rate of inflation (the desired objective) and/or production (not desired).^{2/}

Possibly because of the greater simplicity of the monetarist model, possibly because of the insufficient operationality of the structuralist approach, the fact remains that the stabilization policies followed during the fifties and early sixties tended to be monetarist in orientation. On the other hand, because such stabilization programs almost invariably resulted in recession such an approach slowly fell into disgrace.

Nevertheless, the monetary approach reappeared in the seventies. For one thing, the approach had been enriched theoretically. It was now recognized that velocity (that is to say, the reciprocal of the demand for money) varied; however, it was argued that it varied not in an unpredictable fashion, or in a fashion which automatically compensated monetary growth, but rather that such a variation in velocity was stable or at least predictable. On the other hand, while it was recognized that it was not at all clear in what way a deceleration in nominal aggregate demand would divide itself in the short run between a slower rate of inflation and/or a recession,^{3/} it was argued that a recession could be avoided to the extent that inflation was correctly anticipated. Secondly, and possibly more decisively in practice, given the need, indeed the urgency, to combat triple digit inflation, it seemed quite unconvincing to attribute significant causality for such high inflation to structural factors, or to insist that it was indispensable to eliminate such in order to avoid higher inflation.

Given the neoconservatives' preference for the market and aversion to administrative controls, it is not at all surprising that these countries initially have adopted a monetarist approach, and more specifically the monetarist approach for a closed economy. With the passing of time, and with the increased opening of the economy, the approach would slowly be modified and the key instrument ceased to be the control of the money supply, but exchange policy. In any case, throughout the entire experience, the prevailing spirit was that of minimizing administrative intervention in the market.

C. Phase I - Monetarism for a closed economy

1. The logic of the approach

The quantitative identity in its dynamic form, offers a good starting point to explain the stabilization policy of phase I in the three neoconservative experiences of the Southern Cone: $\dot{M}/M + v/v = \dot{P}/P + \dot{Q}/Q$. If one wants to slow an inflation, one needs to slow down the growth in nominal aggregate demand (Mv). Nevertheless, the relative impact which such a deceleration in nominal aggregate demand will have, be it on prices be it on production, will very much depend on inflationary expectations.^{4/} If such expectations are fairly uniform among different economic agents and these coincide with the inflationary goal implicit in monetary policy, the deceleration in nominal aggregate demand will fall exclusively on prices (precisely what is desired). On the other hand, to the extent that there be a significant difference between the inflation expected and that consistent with monetary and fiscal policy, the deceleration in nominal aggregate demand will also fall on production (precisely what we desire to avoid). In short, however high inflation might be, it is theoretically possible to bring it down without a fall in output.^{5/} Problems emerge if in fact there be rigidities, especially as concern expectations, for these will slow timely adjustments to the new conditions which economic policy is trying to establish.

In other words, if inflation is really nothing else than "too much money chasing too few goods", it is not at all clear why in order to bring down inflation it should be necessary to produce fewer goods. To be sure, often times, stabilization policies end in recession, but this is not because it is inevitable; rather, it is a sign of failure, a failure to harmonize the expectations of economic agents with the inflationary goal implicit in the fiscal and monetary policies which the Government is carrying out.

In the three experiences serious efforts were taken to avoid the formation of "erroneous" inflationary expectations. During the first phase efforts centered in the labor market, for should inflationary expectations become incorporated into labor contracts, and to the extent these were based on past inflation, wages movements would become terribly rigid. For example, should both entrepreneurs and workers expect inflation to be higher than the rate aimed at by the Government, labor costs would rise with negative consequences for employment and output. In short, should the Government fail to harmonize the inflation in wage contracts with that implicit in economic policy, it would inevitably be confronted with the following dilemma: or ratify such erroneous expectations, easing up its monetary and fiscal policy at the cost of sacrificing its stabilization program, or else persist in its stabilization goals and consonant restrictive economic policy, but at the expense of recession.

We may call this the neoclassical variant of recession (as opposed to the neokeynesian one) inasmuch as unemployment and recession would be due to a rise in real labor costs. In other words, unemployment would be a reflexion of a disequilibrium in the labor market and not, as in neokeynesian models, of a disequilibrium in the goods market. Thus for neoconservatives any stabilization program which wishes to avoid recession and unemployment must necessarily attempt to harmonize wage readjustments with the inflationary goal set by the Government. This means wage controls. For the market left to itself could not adjust wages to coming inflation, inasmuch as it cannot know in advance the seriousness with which the Government intends to apply its stabilization program. Any doubt as to this would inevitably create rigidities in expectations and consequently lead to recession.

For reasons of this sort (among others) neoconservatism in the Southern Cone justified the use of administrative controls on wages.^{6/} However, such doubts as to the ability of the market to adjust rapidly

in transition situations did not lead to the adoption of similar interventionist measures in other markets (for example, the goods or financial markets).^{7/} In these latter markets apparently, there was confidence that competition would assure rapid and converging adjustments, so that all possible disequilibria in such markets would be quite transitory.

2. The policies

Inasmuch as inflation was considered to be fundamentally a monetary phenomenon, the key instrument in reducing it was the control of the monetary supply. However, in order to avoid or minimize recessive costs, control of the money supply had to be accompanied by wage controls. Moreover, a deceleration in the growth of monetary variables required a reduction in the fiscal deficit, all the more so given the magnitudes involved at the beginning of the neoconservative experiences (fiscal deficits ranged between 4 and 10 per cent of GNP). This implied an increase in the prices of public services, increased taxes, reductions in current expenditures (principally wages) and, moreover, in Chile, a decline in public investment.

According to the monetary framework such measures were the sine qua non of a price stabilization program. Nevertheless, this program was accompanied by two other measures which would prove to be of paramount importance in the future evolution of these economies. First of all, from the very beginning the three countries faced serious external disequilibria which would require real devaluations (Chile and Uruguay) or the maintenance of a high real exchange rate (Argentina had recently devalued). It is important in this respect that a recession is not required in order to improve the trade balance. What is required is to reduce domestic spending and switch output towards tradeables (by means of a devaluation and/or an appropriate commercial policy) substituting (not simply reducing) imports and promoting exports.

To the extent to which income decline, generally speaking one would expect a corresponding decline in real wages. The worsening in the terms of trade which Argentina and Uruguay experienced from the very beginning, and Chile as of the end of 1974, would necessarily require some decline, though modest, in real wages.^{8/}

Secondly, there existed a widespread system of price controls in the three countries. As a result relative prices were severely distorted (creating downward pressure on food prices relative to industrial goods) and/or repressing inflation.^{9/} For these reasons price controls were eliminated in all three countries. Such a policy was radical and abrupt in Chile, gradual in Uruguay, and erratic in Argentina.

It is evident, thus, that the policy pursued in these three countries from the very beginning did not limit itself solely nor principally to the fight against inflation; rather, in differing degrees, each country made serious attempts to restore equilibria in the external sector and correct the heavily distorted system of relative prices.

3. The results

External disequilibria significantly improved during the first phase as was inflation reduced although it was reduced at a much slower pace than anticipated and at the cost of a sharp fall in real wages (of the order of 25 to 30 per cent with respect to the normal or historical levels) and of a severe recession (Chile) or stagnation (Argentina). Growth was possible in Uruguay thanks to the very strong increase in public investment and in exports which more than compensated the decline in domestic consumption.

As far as inflation is concerned, the policies pursued resulted in important reductions in the fiscal deficit and the rate of expansion of the money supply (see Table 2).

The fiscal deficit fell during the first phase from 9 to 3 per cent of GNP in Argentina (between 1975-1976 and 1978); from 25 to 2 per cent in Chile (between 1973 and 1976), and from 4 to 1 per cent in Uruguay (between 1973-1974 and 1978). The growth of M1 in the same period decelerated from 250 to 140 per cent a year in Argentina, from 250 to 220 per cent a year in Chile, and from 70 to 55 per cent a year in Uruguay. As a result of restrictive monetary, fiscal and wage policies, inflation fell sharply: from rates of the order of 300 per cent during the last, pre-neoconservative year in Argentina to 175 per cent at the end of phase I, 1978; in Chile from 440 to 230 per cent between 1973 and 1976, and in Uruguay from close to 90 per cent in 1973-1974 to 45 per cent in 1978.

As might have been expected, there was a very significant correlation between the fiscal deficit, monetary expansion and the rate of inflation (see graph 1); high rates of inflation were accompanied by large fiscal deficits and very strong monetary growth; whereas low rates of inflation coincided with lower deficits and rather modest monetary expansion. Nonetheless, these relationships were fairly loose in the short run.

It is reasonable to suppose that in periods of accelerating inflation the velocity of circulation of money will rise because of inflationary expectations so that the rate of growth of prices be greater than that of monetary variables. Nevertheless, during phase I in Argentina and Chile prices appear to have risen not so much because of the pressure of demand, but because of price decisions taken by the producers themselves in anticipation of a demand for goods which never materialized. For that reason, for example, the increase in prices in the first year (1974) of Chile's neoconservative experiment exceeded the increase in money supply by almost 50 per cent.

Once the inflationary process reversed itself, an inverse relationship would have been expected. That is to say, expectations of a decelerating inflation would increase the demand of money so that prices would grow less rapidly than the growth of money supply. Nevertheless,

this did not take place, neither in Argentina nor in Chile. Quite the contrary, in the following years of phase I, though inflation slowed, it continued to advance at a rate well in excess of the growth in money supply (see graph 1 once again). Consequently, during the three years of phase I stabilization, the increase in prices exceeded the expansion of the money supply by over 100 per cent in the case of Chile and by 25 per cent in the case of Argentina.

Moreover, the assumption that inflationary expectations express themselves solely or principally in the labour market is rather doubtful, at least from a theoretical point of view. The validity of this assumption is brought further into question if one takes into account that at the same time policy was intended to achieve the following: i) bring about a real devaluation which implied raising the relative price of tradeables, and ii) raise, by way of a price liberalization, the relative prices of goods heretofore controlled (generally speaking, foodstuffs). Moreover, inasmuch as the public could not know how much of the nominal devaluation was intended to be real (that is to say, how much would correspond to a relative improvement) and how much would be nominal (a pure inflationary increase), nor could it know how long the policy of price liberalization would last (indeed Argentina restored price controls within the year) it is easy to understand that producers would have set their prices, not in accordance with their current demand or prevailing wage costs but in accordance with that they expected these to be in the future. What is pertinent for such future values is the expected cost of labor, the expected cost of importing (thereby the rate at which one foresees a devaluation to continue), the level of real interest rates,^{10/} the evolution of public service prices, the evolution of prices heretofore controlled, expectations about what other producers were thinking about doing with their prices, etc.^{11/} Finally, inasmuch as these entrepreneurs faced little competition, especially at the beginning of phase I, they had ample margin to fix prices in accordance with their own inflationary expectations, be these erroneous or not.

In other words, the need to achieve balance in external accounts and simultaneously stabilize as well as correct the distorted price system, made increasingly perilous the possibility of achieving reduced inflation without at the same time inducing a recession. It is not that recession is intrinsically or inevitably a consequence of the pursuit of either or both of these objectives. Rather, it was the pursuit of both goals simultaneously with similar sets of instruments without considering the repercussions these might have on other objectives, that jeopardized the success of the stabilization policy. Hence, the deceleration in nominal aggregate demand fell not only on prices, as was desired but on the level of economic activity, which obviously was not desired.

Returning to the stabilization policy in this initial phase, to the extent to which inflationary expectations significantly exceeded the rate of inflation implicit in monetary and fiscal policy, the deceleration in nominal aggregate demand would fall on output (something undesirable) and not only or exclusively on prices. Were this to be the case, then monetary and fiscal policy would prove to be too tight. And this indeed is exactly what occurred: first, there was too little money for the level of prices which in fact prevailed; that is to say, real interest was too high; secondly, real wages were too low; and thirdly, the level of putput and employment was below the productive capacity of the country (that is to say, recession).^{12/}

Had the divergence between the inflationary expectations of the public and the rate of inflation implicit in economic policy been quickly closed, the contraction in internal demand would have been harmless. Unfortunately, inflationary expectations adjusted quite slowly, thereby prolonging and worsening the recession. Inflationary expectations adjusted slowly to the extent that national income was redistributed towards producers, a fact which served to cushion, if not fully compensate, the cost in sales of their erroneous price setting policy.^{13/}

In short, what producers lost by virtue of lower sales they made up via higher prices and margins, thus slowing the movement to equilibrium and worsening income distribution (see Table 3).

Given that prices remained well above equilibria, internal demand was insufficient to absorb a fully occupied productive capacity. The economies thus tended to fall into recession. This phenomena was further aggravated in Chile by a sharp fall in public sector investment and external demand (inasmuch as the quantum of exports did not grow enough to compensate the very severe decline in its terms of trade). The cumulative effects of reduced consumption (via wage reductions) and investment (cut backs in public investment and a decline in private investment) and the fall in internal demand resulted in a very sharp economic contraction. GNP per capita in Chile fell 13 per cent between 1973 and 1976. By contrast, the restrictive effects of the stabilization policy were compensated in Argentina or even more than compensated in Uruguay by very sharp increases in public investment and in the volume of exports. Thus, in Argentina and above all in Uruguay, overall demand, rather than contract, was reoriented from domestic consumption to investment and exports.

The observed differences in the behaviour of employment during the first phase in each of these three countries is largely explained by the very different evolution of their respective output and not by the trajectory of real wages which was quite similar in the three (that is to say, a sharp fall). This is the case because in product market disequilibria, where at the prevailing but inflated level of prices one can not sell all one wishes, the demand for labor is no longer a function of wage costs so much as of the level of sales. Insofar as sales declined (Chile) or did not grow (Argentina), the demand for labor also fell or failed to grow, for however much real wages had fallen, the opportunity cost of unused machines in factories had fallen even more (it was virtually zero). As a result, the prime effect of the fall in wages was to reduce domestic demand for goods much more than induce the

increased hiring of labor because of its lower cost. This would explain why in future years the growth of employment in Chile coincided with increases and not declines in real wages.

Inversely, in Uruguay where, despite the fall in domestic consumption, GNP grew, employment also expanded. That is to say, the unemployment which was generated in this phase was not so much a symptom of a disequilibrium in the labor market -whose resolution would have required a lowering of real wages- but rather was a result of a disequilibrium in the goods market (overshot prices with depressed sales). The employment problem could not be resolved until the basic disequilibrium affecting the goods market were resolved.^{14/} Hence, notwithstanding the high rate of inflation, unemployment was due to a lack of aggregate demand. The problem thus was not price rigidity, so much as the rigidity in inflationary expectations. Consequently, inflation slowed much more slowly than the rate implicit in the monetary, fiscal, and wage policies being pursued by the government.

D. Phase II - The monetary approach to the balance of payments

1. Its logic

The failure of inflationary expectations to adjust rapidly limited the degree to which money supply could be decelerated without incurring in excessively severe recession, and so led to a new approach to stabilization. Efforts began to focus on exchange policy; monetary policy would then become passive, money supply adjusting automatically to movements in the balance of payments. The exchange rate would be devalued from then on in, according to a preestablished program rather than passively in accordance with past inflation. It was thought that in this way expectations could be brought into line or at least rapidly adjusted to the inflationary goal implicit in government policy. Thus the immediate and prime objective of exchange policy became the control of inflation and no longer the maintenance of the exchange rate in real terms for purposes of trade balance equilibrium.

To be sure, it was not considered necessary to lower the real rate of exchange in order to slow inflation. Rather, it was believed, and certainly hoped, that the announcement of this policy change and its being put into effect would demonstrate clearly to economic agents the seriousness with which the government intended to pursue its anti-inflationary goal, and so bring down inflationary expectations to the rate of devaluation. Since the latter was programmed to decelerate, the rate of inflation could be expected quickly to equalize the rate of devaluation and so, the inflationary goal.^{15/} Should things behave this way rapidly, the overshoot level of prices and the ensuing disequilibria it brought about could be corrected without any further costs in output. At the same time the real rate of exchange would be maintained.

Exchange policy was expected to influence the behaviour of prices not only via expectations, but in a more direct fashion. At least insofar as tradeables were concerned, it would tend to limit the price of domestic products to that of the imports with which these competed. For, at this stage, the three economies had substantially opened up imports, so that domestic prices had a ceiling given by the international price of the imported goods plus transport, tariffs, and retailing costs. This ceiling is the so called "law of one price". Given the relatively free flow of imports, it was believed that, regardless of what inflationary expectations were, the price of domestic goods would necessarily have to converge to this price. At the same time the liberalization of the domestic capital market had created substitutes for money which made it increasingly more difficult to control the supply of money. Monetary control was further complicated by the financial opening up to the outside world. Money growth began to be explained largely by exchange operations, and not, as in the past, principally by the expansion of internal credit or treasury financing. Thus, the fact that control of the money supply became increasingly difficult with financial liberalization was a further argument in behalf of this new exchange policy.

The monetary approach to the balance of payments provided the underlying theoretical basis for this policy change. According to this view, differences in the amount of money demanded and supplied are resolved through the balance of payments (and not by changes in production). For example, given a certain demand for monetary balances, if the supply of internal credit were to contract, the domestic interest rate would rise. Two adjustment mechanisms would then automatically come into play to resolve this difference. If the capital account were open, capital would come in, increasing international reserves, till the supply of money came to equal the amount of money demanded and the initial monetary restriction ended up determining not the amount of money in hand but only its composition (between internal and external credit). On the other hand, were the capital account to be closed, the increase in domestic interest rates would lower the demand of goods, reducing imports, producing a surplus in the trade balance, and augmenting reserves. At the same time, higher interest rates would eventually lower the price of internal goods, generating a further surplus in trade balance, and increasing reserves. Thus the supply of money would expand to the level being demanded. Implicit in this approach, be it with open or closed capital accounts, is that disequilibria between supply and demand for money are resolved quickly and directly via prices and/or movements in the balance of payments and not via changes in the level of output. To ignore or minimize this latter possibility is a central assumption which this approach has in common with the quantity theory of money, both in its earlier and simple version as in its more sophisticated and modern version. And it is this assumption which distinguishes this approach from most others. To be sure, the speed with which the so called law of one price operates in order to equalize 16/ internal and external rates of interest and the prices of domestic and imported goods, is critical in determining whether adjustment will take place principally via product or via monetary

adjustments. The high degree of international liquidity available in the second half of the seventies made very plausible the first condition; the increased trade opening which the three countries of the Southern Cone underwent (at least insofar as eliminating non-tariff barriers is concerned) also made plausible that the second condition be satisfied.

2. The policies

During this phase the stabilization policy centered on the exchange rate. Domestic inflation was expected to converge to international inflation plus the rate of devaluation. Indeed the level of domestic prices would need approximate that of international prices. Unfortunately, early on in phase II a gap between domestic and international prices emerged, a gap which persisted even after taking into account differences in prices arising from transport, tariff and trade costs. As a result at some point in this new phase domestic inflation would have to be less than international inflation plus devaluation, at least until internal prices equalled external prices. This assumption, critical though it was, tended to be overlooked by policy makers in the Southern Cone.

In any case, it was expected that inflation would decline rapidly, roughly to that given by the rate of devaluation. To be sure, no one thought that exchange rates could be fixed immediately for so long as inflation continued to be high and the internal factors contributing to monetary expansion continued to persist economic agents would see such a fixing of the exchange rate as an unsustainable policy. For example, if M1 were of the order of 10 per cent of GNP and if a public deficit of the order of 5 per cent of GNP were expected, money growth would necessarily have to be of the order of 50 per cent, and so, a rate of inflation of that order of magnitude could be expected. Hence, it would be considered reckless for the government to program a devaluation of much less than 40 per cent a year (this would imply an external inflation of 10 per cent). On the other hand, once the

public sector deficit was eliminated, there would be no reason (according to this approach) why the exchange rate could not be fixed, so that the rate of domestic inflation very rapidly come to equal that of the industrial countries. Indeed, to the extent this approach be correct, there would be no other choice than to fix the exchange rate once the deficit were eliminated. The objective, then, was to devalue at diminishing rates (in order to affect expectations), according to a pre-announced calendar (generally for 6 months). This policy was begun, at least partially, in Chile as of mid 1976, and in Argentina and Uruguay towards the end of 1978. Once the fiscal deficit was eliminated in Chile in 1979, the exchange rate was fixed at 39 pesos to the dollar, exactly as this approach would suggest. Notwithstanding the fact that the fiscal deficit was also eliminated in Uruguay (in 1979), the authorities there preferred not to fix the exchange rate, at least not yet, for domestic inflation was still of the order of 60 per cent (well above Chile's then 33 per cent and the industrial countries' 10 per cent).

At the same time, given the extensive capital available in the international scene, the three Southern Cone countries increased their financial opening to the outside world in the hopes of achieving an even more rapid convergence of internal and external rates of interest. Then, too, trade was further opened up (a good deal in Chile, somewhat in Argentina, almost nothing in Uruguay), as a means to stimulate competition and further press prices to converge rapidly to external ones.

3. The results (see Table 2 again)

While the phase II stabilization program was in effect, both Chile (in 1981) and Uruguay (in 1982) managed to lower inflation to international rates. This reduction was especially spectacular in the case of Chile, where 5 years before inflation exceeded 200 per cent. Inflation was almost halved in Argentina; nevertheless it never fell below 100 per cent a year.

Argentina's inability to control its public deficit would seem to explain why it was unable to make further progress in this plane. Its deficit was never less than 3 per cent of GNP and in 1981, the year of lowest inflation (100 per cent), its deficit once again began to grow, closing at 4 per cent of GNP.^{17/} This fact could not fail to have a negative influence on the credibility of its exchange policy. For as Rodríguez has argued, it was very hard to believe that the announced policy of devaluing at a rate of 1 per cent per month between July 1980 and May of 1981 could be long sustained while at the same time the rate of inflation was five times that and the expected public deficit was of the order of 6 or 7 per cent of GNP (a fact which in itself implied or suggested a rate of inflation of the order of 80 per cent).^{18/}

While an important component of growth was simply a recovery, nonetheless the growth in output in this period in all three countries was well above that experienced during phase I. Output per capita grew at a rate above 2 per cent per year in 1979 and 1980 in Argentina as opposed to -0.9 per cent per year in 1976-1978; in Chile it recovered and grew at a rate of 6 per cent per year in the 5 years, 1977-81 as opposed to a fall of over 4 per cent per year between 1974 and 1976; and in Uruguay it grew above 5 per cent per year in 1979 and 1980 versus a 3.6 per cent annual growth in the 4 years, 1975-78. In other words, the phase II stabilization policy brought on no recession, at least not in its first years.

Inflation, however, fell much slower than the decline in the rate of devaluation, creating a problem which would become increasingly more serious in the course of time. Between the beginning and the end of phase II, domestic inflation exceeded international inflation plus the rate of devaluation by a substantial amount, so that internal prices were well above those of imported goods. During phase II, the price of domestic relative to imported goods had risen by something of the order of: 50 per cent in Argentina (between 1978 and 1980) and almost 30 per cent both in Chile (between 1976 and 1981) and Uruguay (between 1978 and 1981). (See Table 4).

Indeed, the loss of competitiveness was even greater than the above would suggest. For during this period tariffs were lowered, especially in Chile. This meant that foreign goods entered even more cheaply than before. Moreover, to the extent that real wages are an even better indicator of the evolution of domestic costs, since these tended to recover during phase II, costs would have risen by even more than the lag in exchange rate. Once one adjusts for both of these phenomena the increased relative cost of domestic goods with respect to international goods during phase II exceeds 50 per cent in Uruguay and 100 per cent in Argentina and Chile (see column B, Table 4).19/

That the exchange rate lagged is a fact. The question is, why did it lag? Why did the exchange rate become increasingly revalued? Why didn't the rate of domestic inflation fall more rapidly or fall at the rate at which the exchange rate was being devalued (that rate plus international inflation)? Why did it exceed it by so large a margin? The following hypotheses are pertinent in this regard:

i) The law of one price pertains directly and exclusively to tradeables and these make up but half of the GNP. It is quite likely that many activities related to commerce, to the distribution of imports, to the financial system or to construction experienced an excessive demand during this period, which raised the prices of certain non-tradeables. To the extent to which the producers of tradeables tried to maintain their historic relation to non-tradeables, this fact might have generated pressures, upward pressures on the prices of some tradeables.

ii) Insofar as tradeables are concerned, there seems to have existed an excessive margin of protection; that is to say, some tariffs were partially redundant. Hence, a reduction in a tariff did not, in and of itself, bring about a proportional reduction in domestic prices.

iii) In similar fashion, high transport costs (especially for products with little value added per unit volume) and/or high financial costs (especially imports with low turnover) provided natural protection so that domestic prices need not converge directly to international prices but rather equalled international prices plus the cost of

transport, plus financial costs and tariffs. The price of the domestic good could, therefore, vary widely within a band or range of prices, the lower limit of which was given by the price at which the good would be imported from abroad, the upper by the price at which it'd be exported.^{20/}

iv) It's reasonable to expect, especially at the initial stages of trade liberalization that small scale importers would set their price not at that equal to international prices plus tariffs (price equals cost) but rather at the level of domestic prices, and a bit less. In this way, price convergence took place, but upwards to domestic prices and not downwards to international prices, at least in the initial stages.

v) In a latter stage, it seems that many importers introduced differentiated products which heretofore had not existed in the domestic market (for example, whisky) and which, although they took away part of the domestic market from the local product (for example, the local alcoholic beverage), did not affect it's price in any significant fashion. In short, inasmuch as the domestic product was but an imperfect substitute of the imported good it would be very difficult to avoid the loss of its market simply by lowering price, for the imported good attracted a goodly number of consumers simply because of its quality, or variety or indeed its novelty, but certainly not solely because of its price.^{21/}

vi) At the same time, many goods were imported by the very same producers of the domestic goods with which they competed. To the extent to which these producers controlled the domestic market, they controlled the price both of the domestic as well as of the imported product, so that domestic prices would continue to remain above international prices plus transport cost, plus tariffs, so long as there was insufficient competition in importing and distribution. Such competition was fully achieved solely in relatively standardized products with high turnover, such as television sets, radios and portable cassettes.

Finally, it must be noted that all these are simply reasons why domestic prices will remain above international prices plus tariffs and transport costs for some time. Nevertheless, none of these arguments denies the fact that, given enough time, the convergence of domestic prices with international prices would eventually have to take place. The point simply is that such an adjustment could be quite slow and costly. And it was precisely the slow downward adjustment in prices and inflation in the Southern Cone which made it increasingly likely that the government would find itself forced to abandon its exchange policy.

Obviously, the loss in competitiveness, which the large exchange rate lag implied, had very serious consequences on the balance of payments, inasmuch as exports were discouraged and imports encouraged. Nevertheless, the more pernicious effects of the lag in exchange rates were not noted or felt at once. For some time, the deficit in current account due to the lag in exchange rates could be financed through the heavy affluence of external credit. Nevertheless, capital inflows of the order of 5 and 10 per cent of GNP, as was the case in 1980 and 1981 were clearly not sustainable in the long run. As confidence in the maintenance of the ongoing exchange policy weakened, it was necessary to offer extraordinarily high domestic interest rates (of the order of 3 to 4 per cent real per month) in order to attract foreign capital or to impede capital flight.

E. Phase III - Adjustment (forced) to External Disequilibrium

1. Its "Logic"

A price stabilization policy is never absolutely necessary for inflation can be lived with if one so chooses. However, in the case of external disequilibria, adjustments need be made whether a country wants to or not. In the particular instance of the Southern Cone countries, it would be fair to say that there was no deliberately chosen policy to adjust to external disequilibrium (except for the first few months of this phase), but rather adjustment was forced on them by events.

The lag in the exchange rate, which increasingly left domestic prices above international prices, plus the extraordinarily high real rate of interest were steadily sapping away internal demand. To this was added an ever more imminent and explosive financial crisis. It was, of course, clear by this time that it was necessary to correct the obvious external disequilibrium. And this was seen as unpleasant, not the fact in itself, but rather the standard means, devaluation. For though an external disequilibrium such as this requires a real depreciation this could be achieved in either of two ways: first, by raising the prices of international goods (expressed in domestic currency) to that of domestic goods via a nominal devaluation of the exchange rate; or secondly, by lowering the price of domestic goods to that of international goods via a deflation, exchange policy standing pat.

The two approaches are perfectly equivalent in theory, yet in practice they entail different risks. A devaluation of the exchange rate, even though intended simply to correct a distortion in relative prices, could set off inflationary expectations, resulting in an upward spiral in inflation rather than a once and for all shift in prices. Deflation, on the other hand, runs a very high risk of bringing about a severe recession and not just simply lowering prices and/or inflation. All the more so when the exchange lag to be corrected is, as it was then, of the order of 30 to 50 per cent. Given the size of this disequilibrium it was difficult to imagine that the full deceleration in nominal aggregate demand could be absorbed immediately and completely by a sharp deceleration in domestic prices (what was of course required and desired). Rather it should have been expected that at least some of the deceleration in nominal aggregate demand would fall on production and lead to a recession, a recession which would be all the more severe the greater the exchange lag to be corrected and the greater the rigidity in inflationary expectations.22/

2. The policy

Nevertheless, policy makers in all three countries preferred to bide their time, maintaining their exchange policy rather than devalue. For they feared that a devaluation of the exchange rate would lead to an explosive resurgence of inflation. And, after all, lower inflation was one of their principal achievements. Hence, they placed their hopes on what was called "automatic adjustment"; that is to say that the deceleration in monetary growth would rapidly lower inflation to a rate less than that equal to the rate of devaluation plus international inflation. It need be noted that this option entailed no action, simply maintaining the exchange policy. If the balance of payments went into deficit monetary growth would automatically slow. Whether this have an impact on output as well as prices is another question. The hope was that the bunt if not the whole of the impact of the decline of deceleration in nominal aggregate demand would fall in inflation, rather than on production, and in this way lead to a real devaluation.

3. The results (see Table 5)

The ensuing deceleration in nominal aggregate demand indeed lowered the rate of inflation in all three countries. Nevertheless, the real devaluation achieved by this means (deflation) was not at all important (a few percentage points per semester), much too slow to correct significantly the large exchange lag accumulated in the course of the foregoing years. In short, the bulk of the contraction in nominal aggregate demand fell not on prices, as desired, but on output. To be sure, imports were thus sharply and "automatically" curtailed but at the cost of a severe recession in all three countries.

The severity of the recession increased the pressures of domestic producers on governments to abandon the policy of minor (or zero) periodic and pre-announced devaluations and to replace it with a massive devaluation to correct prices quickly. This pressure became irresistible once it became clear that the only way the government could maintain its exchange policy without an even more severe recession was that foreign

capital continue to flow in in massive proportions. This, of course, was not to be the case. The very decline in internal output, the deceleration in exports and the increasing signs of internal financial crises eroded what confidence there was left amongst foreign creditors as to the capacity of these countries to serve their foreign debt. The die was then cast. The inflow of capital was sharply curtailed: it fell 60 per cent in Argentina in 1981, 75 per cent in Chile in 1982 and over 100 per cent in Uruguay in 1982 (see line 1, Table 6).

It is difficult to exaggerate the adverse impact which such a shift in net capital flows implied. Indeed, once interest and other factor payments are deducted from net capital flows, instead of receiving resources from the rest of the world, the three Southern Cone countries became net exporters of resources in the year they were finally forced to devalue (see line 3, Table 6). To be sure, it's not that capital flows were so low and the reverse transfer of resources so high in the year of the devaluation. The net transfer of resources was of the order of 20 per cent of exports in all three countries (see line 4 of Table 6). The real problem was that they were negative, after having been strongly positive the year before. Indeed, it was because of such strong capital flows that aggregate demand could be maintained during phase II despite the generally poor terms of trade and the lag in the exchange rate.

In any case the magnitudes involved were huge. The shift in net resources transferred in the year of the devaluation was the equivalent of a deterioration in the terms of trade of 25 per cent in Argentina, 50 per cent in Uruguay, and 80 per cent in Chile (see line 4 of Table 6). Put differently, this meant, for example, that instead of Chile's being able to import 80 per cent more than the amount given by its export earnings, as in 1981, because of the positive effect of the net transfer of resources, in 1982 because the net transfer of resources was negative Chile had financing available which allowed it to import but 75 per cent of the value of its export earnings. (See Graph 2). Such was the impact of the shift in capital flows on the net transfer of resources.

Given the lag in the exchange rate, given the unprecedented reduction in capital inflows, and finally, given the severe internal recession and accompanying domestic financial crises, there was no alternative other than to abandon the policy of automatic adjustment with a pre-announced exchange rate, and proceed to a massive devaluation. Not only was there no longer any confidence in the sustainability of the exchange policy but, once capital flows were curtailed, resources (reserves) had finally been run down to finance the deflation. Hence, there was no longer any other practical alternative but a sharp increase in the exchange rate.

Such maxi-devaluations were followed by sharp increases in the rate of inflation in all three countries. Nevertheless, the intensity of such inflation was considerably less than the devaluation so that competitiveness tended to be recovered, and the real exchange rate experienced sharp improvement. (see Table 4 once again).^{23/} To be sure, thanks to the recession the quantum of imports fell so sharply that by 1983 the deficit in current account in all three countries had been sharply reduced (from almost 90 per cent in Chile in 1981 to less than 25 per cent in 1983; from almost 50 per cent in 1980 in Uruguay to 7 per cent in 1983; and in Argentina from well over 40 per cent in 1980 and 1981 to just over 20 per cent in 1983). Moreover, all three countries had come from very severe deficits in their balance of trade in 1980 and in 1981 to important trade surpluses in 1982. Once again the basis of these improvements was almost exclusively limited to the extraordinarily sharp reduction in the quantum of imports which the recession entailed. This reduction was 45 per cent in the two years, 1982 and 1983, in Chile, 55 per cent for the same period in Argentina and 63 per cent in Uruguay. A recession is of course an extraordinarily rapid method of lowering imports but it does so at the cost of a severe contraction in output. Consequently, in the two or three years which this third phase lasted in the Southern Cone countries, output fell some 10 per cent in each of the three countries and unemployment sharply increased.

Finally, notwithstanding the fact that the inflow of foreign capital was sharply curtailed in these years, the level of foreign debt was still extraordinarily high by the end of 1983. The ratio of foreign debt to the value of all exports of goods and services varied from a low of 3.3 in Uruguay to a high of 4.5 in Argentina. This, of course, compared quite unfavourably with the average of 2.7 for the rest of the region. To be sure, the Southern Cone countries had also been amongst the most highly indebted countries of Latin America when the neoconservative experiences began. What is truly remarkable is that they should not have slowed down their indebtedness in the course of eight to ten years of considerably strong export growth and seeming allegiance to the principle of strict financial discipline. That they should still stand out amongst the most indebted countries of the region in 1983 certainly does not speak well of the economic liberalization policies which they pursued, and, in particular, their policy of financial liberalization. This latter seems to have heightened rather than reduced their dependence on foreign savings and consequently made them all the more vulnerable to swings in the international economy. For now they had to be prepared to offset unexpected movements in capital accounts as well as in their terms of trade. Financial liberalization only as the level of debt approach more modest proportions might have given them more degrees of freedom with which to cope with the external disequilibrium they faced in later years. Instead, rapid financial liberalization, in the face of an already unduly high level of debt, added a further and critical element which would serve to accentuate rather than attenuate unexpected movements in their external accounts. Consequently, rather than add degrees of freedom, they lost degrees of freedom. Adjustment was thus largely forced upon them (maxi-devaluation plus severe recession) rather than being a policy which they deliberately chose. And the adjustment that was forced upon them would be among the most severe cutbacks in output experienced in all of Latin America.

F. Conclusions

One must sharply distinguish two types of stabilization policies: those which are intended principally to overcome internal disequilibria (inflation and/or recession), and those designed to overcome external disequilibria (associated with deficits in the balance of payments). The most important distinction between the two is that the former need not be faced, inflation can be lived with indefinitely; whereas the latter, that is to say, external disequilibrium, cannot be put off. The balance of payments is a binding restriction rather like a budget restraint. Adjustment to it is a necessity.

Moreover, precisely because inflation can be lived with, depending solely on the country's tolerance, there is no reason, at least in theory, why an anti-inflationary stabilization policy need reduce output. To be sure, often recession is all too often the (unwanted) result of a stabilization policy, but this is not inevitable. By contrast, adjustment policies have an unavoidable cost for the country. Adjustment to an external disequilibrium requires that the quantum of goods available to the country must decline in order to be able to meet its foreign commitments. This is unavoidable. What is avoidable, though unfortunately it often accompanies adjustment processes, is that output also decline. For certainly the decline in output is by no means a necessary nor desirable condition for reducing the goods available to the economy. Quite the contrary, the optimum adjustment policy would maintain the rate of growth of output but reorient it from domestic to foreign usage. Exports would increase and imports would decline, the latter being substituted, as needed, by domestic production. And in the course of time, the output of tradeables would expand in relation to non-tradeables. Thus while adjustment inevitably implies a worsening, or at least a slowing down, in the rate of growth of the standard of living of the economy, it does not require a decline in the rate of growth of output. Hence, the challenge which faced the Southern Cone countries in the second half of the seventies and early eighties was

to avoid the recession which unnecessarily accompanies anti-inflationary stabilization policies or balance of payments adjustment processes. So much for first principles.

The first seven conclusions which follow focus on the experiences and the lessons to be derived from the experiences of anti-inflationary stabilization policies in the Southern Cone countries. The last three conclusions will refer to their adjustment to external disequilibria.

1. It is both theoretically and empirically necessary that a decline in the rate of inflation be accompanied, sooner or later, by a deceleration in monetary growth and a reduction in the fiscal deficit. But a stabilization policy will be successful only to the extent to which the remaining principal variables -that is to say, prices, wages, exchange rates, interest rates- decelerate at the same pace. Theoretically, the mere announcement of the deceleration in the inflation rate could be enough to assure that the remaining variables adjust instantly and in this way harmonize their behaviour with the programmed monetary and fiscal policy and the projected inflationary goal. In practice, however, inflationary expectations do not adjust instantaneously. For one thing, the public normally is rather skeptical. It wants to see results first before believing, at least before fully believing that inflation is going to fall as fast as the government projects. Because of this inertia in the adjustment of expectations, the level of prices normally remains above that consistent with the economic policy in being, thus leading to recession. Moreover, it is often the case that in addition to wanting to lower inflation, policy aims at correcting relative prices, as was the case in the three experiences we have examined: the exchange rate, the prices of public services, and/or the prices of agricultural products in relation to industrial goods. Unfortunately, the increase in these heretofore repressed prices is often considered by many private agents to be the single best indicator of probable inflation, and not simply the expression of a needed corrective adjustment in relative prices. This being so, inflationary expectations will exceed the inflationary goal implicit in economic policy, thereby

making policy too restrictive for such a level of expectations, therefore generating a recession.

Hence, while it is certainly true that in order to reduce inflation it is imperative that money supply be controlled and the fiscal deficit reduced, no stabilization policy worth the name can be based on these instruments alone if it wishes to avoid the costs of recession. Such a policy must necessarily try to harmonize, or guide, or control, but certainly not repress the movement of all of the principal economic variables (prices, wages, exchange rate, interest rate, etc.), in such a way that it be compatible with the rate of inflation implicit in the monetary and fiscal policy being programmed. For if some variables adjust more rapidly than others a recession will ensue and, normally, a recession with regressive distributive consequences (at the expense of those variables which adjusted their prices downwards more rapidly).

2. The anti-inflationary stabilization programs in the Southern Cone followed two approaches each of which focused on and controlled some of the principal economic variables, but not all. During the first phase, efforts were centered on direct control of the money supply and wages. Such controls together with natural market forces were expected rapidly to bring internal prices into line with the programmed inflationary goal. During the second phase, efforts centered on controlling the movements of the exchange rate, and by means of this mechanism decelerating the rate of growth of prices. In both cases important achievements were made in reducing inflation. Nevertheless, the cost was high in each inasmuch as the free variable, prices, adjusted far more slowly than the controlled variables, thus generating important disequilibria.

3. In the first phase the principal disequilibrium emerged in the market of goods. Prices shut up far more than wages, giving rise to a severe, demand deficient, recession in Chile and stagnation in Argentina. Only Uruguay was spared and this thanks to its very high level of public investment and to the positive evolution of external demand for its products.

4. Whether a stabilization policy induced recession be avoidable or not, there certainly is no reason why this loss be distributed unequally. Yet the fact of the matter is that the "belt tightening" during phase I proved to be quite uneven in all three countries. Income was sharply redistributed against wage earners, as can be seen by the very sharp fall in real wages (much sharper than the decline in the growth of national income) and, in the case of Chile, further accentuated by an unprecedented increase in the unemployment rate, leaving it two to three times above historic rates. That the distributive cost of the stabilization policy be borne so unevenly was the result of the specific policy instruments applied during phase I; that is to say, of the policy of allowing inflationary expectations to operate freely in the goods market, while controlling wages and pursuing a tight monetary policy. Such expectations led producers to set prices well above that consistent with economic policy. In this way, prices overshot equilibrium and proved to be far above what wage costs alone would have led them to be.

5. In the second phase the principal disequilibrium emerged in the market for foreign exchange. This was so inasmuch as domestic inflation declined much more slowly than the rate of devaluation. This lag in the exchange rate was in turn the result of the slow convergence of domestic prices and interest rates to international ones, at a rate much more slowly than might have been expected were the "law of one price" to have been effective. Contrary to what was expected, the initial tendency was for goods and international loans to be placed at prices (or interest rates) much closer to their domestic counterparts and not at their long run or international values (their cost). In short, initial convergence was not downwards towards international prices and costs but upwards towards domestic prices.

6. Thus, the lag in the exchange rate during phase II finally led to a serious disequilibrium in the balance of payments, eventually giving way to a sharp recession. Initially, recessionary symptoms

were hidden by the unusually strong inflow of foreign capital; but once such flows slowed, a sharp recession proved inevitable. The failure of domestic prices to decelerate at a rhythm similar to the rate of devaluation worsened the exchange rate lag, thereby rendering ever less believable the continuation of the exchange policy and the stabilization program based on it. Such a lack of confidence contributed to the eventual slowdown in the inflow of foreign capital and, hence, finally made inevitable the abandonment of the exchange policy. Massive devaluations were thus made necessary in order to close the huge gap which existed between domestic and foreign prices.

7. In any case while the second phase lasted, that is to say up until the maxi-devaluations, the distribution of income did come to recover (partially), or at least approximate the original concentration existing at the time these neoconservative experiences were initiated. Such an improvement took place because employment (Chile and Uruguay) and/or real wages (Argentina and Chile) tended to rise. These latter recovered sharply in Chile inasmuch as wages were readjusted in accordance with past, not current, inflation, and this latter was rapidly decelerating.

8. While it is undoubtedly true that capital inflows can mitigate balance of payments difficulties and thus avoid significant exchange rate variations, it is likewise true that the sudden reduction in such inflows can themselves create or accentuate an external disequilibrium, forcing even more sizeable adjustments on the balance of trade. This is so because capital movements are sensitive not only to interest rate differentials and exchange lags but also, and more importantly, they are sensitive to uncertainty concerning the country's capacity to service its foreign debt. When such uncertainty leads to sharp declines in production and in capital flows, the magnitude of the adjustment that must take place is all the shorter. These dangers manifested themselves clearly in the three Southern Cone experiences. Capital inflows proved to be highly procyclical. During the period

of programmed devaluations, capital inflows were sufficiently strong so as to minimize, indeed more than compensate, the negative effects on output of a lag of exchange rate, and so maintain strong aggregate demand. Inversely, however, once doubts were created as to the country's capacity to service its debt, capital inflows diminished sharply, thus forcing exceptionally rapid and strong (over) adjustment to external disequilibrium. Thus not only was there overindebtedness (excessive capital inflows) in phase II as can be seen by the extraordinarily high level which the ratio of debt to exports reached in all three countries, but there was overadjustment in phase III. For in this last phase, all three were forced to adjust their economies not only to an external disequilibrium of a continuing sort, due to the lag in the exchange rate, but had also to adjust to the procyclical reduction in capital inflows, which, however transitory, nonetheless had necessarily to be taken into account.

Thus, whereas in the last year of phase II the combination of capital inflows plus variations in the terms of trade increased these countries' capacity to import in the order of 20 to 40 per cent above their level of exports, once adjustment was forced upon them and capital inflows receded the net transfer of resources which they were forced to make was the equivalent of 25 per cent of their exports. As a result, in a twelve months' period each of them was forced to reduce imports or increase exports by the equivalent of at some 50 per cent of the value of exports. Moreover, since these adjustment experiences took place in the course of a major international recession, the brunt of the transfer had to be borne by a reduction in imports and not an expansion of exports. Consequently, given such a sharp reversal in their capacity to import, it is not surprising that in the ensuing years (1981/82-1983) these economies' output fell by the order of 15 per cent.

10. Obviously, it would normally be desirable in the face of external disequilibria, to be able to draw on additional capital inflows to soften and prolong the adjustment experience, so that adjustment take place via an expansion of tradeables and not simply via a reduction of output. Yet in the case of the three southern cone countries, so heavily indebt were they to begin with, that capital flows ceased to be a variable which they could draw on as needed; rather it became a variable to which they were forced to adjust. It is true that a devaluation, that is to say, a "switching" policy taken earlier or possibly of an even sharper magnitude when finally taken, might have succeeded in reducing imports at a lower cost in output. Nevertheless by the time devaluation was forced upon them the magnitude of the disequilibrium was all that larger and capital inflows lower. As a result, the devaluation would be less effective and, given the briefer time frame available, much less effective than it might otherwise have been. In short, the adjustment forced upon them was one which had to cover deficits in trade balance together with sharply diminished capital inflows and which, given the circumstances, had to rely almost exclusively on a reduction of demand and output rather than switching output to tradeables. This, of course, is the worst of all possible adjustments.

NOTES

- 1/ This controversy occupied a good part of the debate concerning inflation right through the end of the 60s'. The literature is extensive. See, for example, the articles by Roberto de Oliveira Campos, David Felix and Joseph Grunwald, in A. Hirschman, editor, Latin American Issues (Twentieth Century Fund, 1961); the articles in the Rio de Janeiro Conference on "Inflation and Economic Growth", and published in the book by W. Baer and I. Kertenetzky, editors, Inflation and Growth in Latin America (Yale University Press, 1964), and the 6 volume study of ECLA, Inflation and Growth (mimeograph), a summary of which was published in the Economic Bulletin for Latin America (February 1962) entitled "Inflation and Growth: a summary of the experience in Latin America".
- 2/ The quantitative identity states that money (M) multiplied by velocity (v) is equal to the level of prices (P) multiplied by the value of output (Q). Consequently it is true by definition and by differentiation that $\dot{M}/M + \dot{v}/v = \dot{P}/P + \dot{Q}/Q$. The quantitative theory in its traditional and simple form states that v is relatively constant. Consequently, $\dot{M}/M = \dot{P}/P + \dot{Q}/Q$. If we suppose, at least for the short run, that product remains constant, $M/M = P/P$ (the more well known expression of the quantitative theory). The quantitative theory showed excellent explicative power in the period 1950 through 1970 for the three countries. Given the growth in money and product, the theory would have predicted a rate of inflation for the period of 20 per cent in Argentina (as opposed to a 24); of 33 per cent in Chile (as opposed to 30), and of 20 per cent (as opposed to 29 per cent).
- 3/ Friedman himself states that this is the single most important problem to be resolved in modern macroeconomics. See his article "A Theoretical Framework for Monetary Analysis", Journal of Political Economy, March/April 1970.
- 4/ To be sure, the demand for money does not depend solely on inflationary expectations, but rather, among other things, of its alternative uses. More specifically, the creation of an internal capital market was to create financial instruments of a highly liquid nature, paying good interest rates, and this was to affect the demand of money. At the same time, the supply of money was not easy to control either.
- 5/ Thomas Sargent makes this point quite explicitly in arguing that the costs of reducing inflation are proportional not to the rate of past inflation (the theory of inflationary "momentum") but rather are proportional to expected inflation (rational expectations). Thus, should the public believe that there has been a change in the rules

governing fiscal and monetary policy (in short, a permanent change in the regime) and not solely a change of policy within those rules (a transitory change) the cost of reducing inflation can be quite low. He cites as specific examples the cases of hyperinflations which were abruptly stopped after the First World War in Germany, Austria, Hungary and Poland and in which recession was either slight or non-existent. See his paper "The End of Four Big Inflations", in NBER Conference Paper No 90 (National Bureau of Economic Research, January 1981, mimeograph).

- 6/ This is not to suggest that there were not other motives behind wage controls. For example, in Uruguay many argued explicitly that wages ought to fall in the short run in order to increase profit margins and thus raise the heretofore low levels of savings and investment. It is also possible that some have believed that real wages had exceeded equilibrium levels during the periods of Perón in Argentina and Allende in Chile (the periods immediately preceding the onset of neoconservatism). In point of fact, this was not the case in Chile, since real wages had already fallen by over 15 per cent with respect to 1970 levels in the last year of Allende. This argument is possibly somewhat more plausible in Argentina, since real wages grew 11 per cent between 1970 and 1975 whereas per capita output grew but 8 per cent. Nevertheless, even were it to be true, given the rather small magnitudes involved the need of adjustment would have been minimal. Finally, there is no doubt that union power was looked upon with great suspicion, both for political as well as ideological reasons. For unions had been an important base of support of the preceding governments in Argentina and Chile. Moreover, the neo-conservatives tended to look upon labour unions as no more than instruments of incipient monopolistic control. Therefore, they tended to believe that wages had been artificially raised for a long period of time.
- 7/ The control of the exchange rate was justified for other reasons: the need to have some numeraire or reference price in the economy, with respect to which all other prices could freely adjust.
- 8/ It is important to note that in none of the cases analyzed did the deterioration in the terms of trade imply a loss greater than the equivalent of 6 per cent of GNP. Therefore, a similar decline in real wages should have maintained income distribution. However, inasmuch as the wage decline was far in excess of this, others need be the factors which explain the bulk of the fall in real wages and not just the adjustment to the external shock.
- 9/ The latter typified the situation of Chile at the end of 1973. The repressed inflation was so severe that a generalized shortage of products emerged, not so much because output had declined but because there was an excess of money, capable of buying far more

than the economy was able to produce at the then prevailing and controlled prices.

- 10/ High interest rates affected not only inflationary expectations but production costs as well pressuring prices upwards, at least in the first instance. In the short run, rather than inducing the sale of inventories, high interest rates and consequently increased financial costs tended to be passed on to prices. See D. Cavallo, "Los efectos recesivos e inflacionarios iniciales de las políticas monetarias de estabilización", Banco Central de la República Argentina, Ensayos Económicos, Nº 4, parte 2 (Buenos Aires, 1977).
- 11/ Referring to Frenkel and Ramos, Foxley pointed out: "In Argentina, Chile and Uruguay double and triple digit inflation was experienced before and during the first years of the stabilization program. It is precisely this type of context which is characterized by imperfect information, by uncertainty with respect to the future evolution of prices, and by huge risk, and in which the above factors become determining elements of the price decisions adopted by firms. Profit margins then become a function of expected inflation, and of the uncertainty and risk involved. During the phase of very high inflation of maximum uncertainty and disequilibrium in the economy, prices become relatively autonomous, not only with respect to demand but also with respect to cost pressures". See A. Foxley, "Experimentos neoliberales en América Latina", Estudios CIEPLAN Nº 7, marzo de 1982; R. Frenkel, "Decisiones de precios en alta inflación", en Estudios CEDES (1979), Vol. 2, nº 3 (Buenos Aires); y J. Ramos "Inflación persistente, inflación reprimida e hiperinflación", en Cuadernos de Economía, diciembre 1977.
- 12/ Farmers had fewer possibilities of setting their prices in accordance with inflationary expectations, either because farm goods are perishables subject to high storage and conservation costs or because this is a more competitive sector. The fact remains that the relative improvement in agricultural prices did not take place to the extent expected.
- 13/ To be sure, this is not a situation which can be maintained in the long run, at least in competitive markets, for each firm can improve its profits by lowering its prices and thus increasing its sales. Nevertheless, in periods of recession as in this case, with prices in disequilibrium, this effect operated slowly. For the firm tended to see the demand of its products as much less elastic to price than what it really was. For a detailed explanation of this point, see J. Ramos, "The Economics of Hyperstagflation", Journal of Development Economics, december 1980.

- 14/ The employment problem was less severe in Argentina, since output there did not fall but simply stagnated. Moreover, in Argentina other factors also came into play, as was pointed out earlier. For example, foreign labor was affected more than domestic labor; there was an important increase in self employment; and fewer people than before continued to hold two jobs.
- 15/ Strictly speaking, the rate of inflation would fall to that equal to the algebraic sum of the devaluation and the rate of international inflation. This sum would be the equivalent of the inflationary goal.
- 16/ More than equalizing, these should approximate each other, for in the case of interest rates a surcharge would have to be added to cover country risk and the higher cost which domestic financial intermediation might entail. In the case of goods, one would have to add the cost of shipping, tariffs, and additional domestic retailing costs.
- 17/ The data in the table to which the text refers correspond to the central government deficit. Were provincial governments' deficits to be included, and these are important in Argentina, the deficit would increase by over 50 per cent.
- 18/ See C. Rodríguez, "Políticas de estabilización en la economía argentina 1978-1982", Cuadernos de economía, N°59, abril de 1983.
- 19/ To be sure, were the lag in the exchange rate to have been compensated by an equivalent improvement in the terms of trade, no problem would have emerged. For the higher cost of domestic production would have been compensated by the increase in the international price of exports, thus maintaining these competitive. While there was a certain improvement in the terms of trade of Argentina in this period, it was far from sufficient to compensate the strong increase in costs. Indeed in Chile the terms of trade worsened so that the problem was accentuated rather than relieved. In Uruguay the terms of trade remained virtually constant.
- 20/ For example, and simply referring to transport costs and tariffs, a product which sold for US\$ 100 in New York would cost US\$ 110 in the Southern Cone, once transport costs were added. Were the tariff, say 18 per cent, its domestic price would be no less than the equivalent of US\$ 130. On the other hand, were one to export the comparable domestic good, its selling price in New York would have to be no more than US\$ 100. This implies that its price in the Southern Cone, before transport would have to be no more than US\$ 90. Indeed, it would have to cost even less were the US to place a tariff on the good. Hence, there would exist a wide band of prices between US\$ 90 and US\$ 130 within which the domestic good could fluctuate, without its being exported nor facing the competition of comparable imported goods.

- 21/ Moreover, it is important to note that, thanks to the strong inflow of capital and the consequently high level of aggregate demand, domestic output tended to rise notwithstanding its loss of market share.
- 22/ There is an asymmetry as well both in theory as well as practice among these two options during the transition. The option of automatic adjustment or deflation would be limited by the fact that nominal interest rates can never be negative inasmuch as the mere holding of money pays a zero nominal rate of interest. This built in inflexibility in the nominal rate of interest implies that deflation will automatically increase real rates of interest, for nominal rates of interest would necessarily have to be positive. So if domestic prices actually fell, because of deflation, the greater would real interest rates and financial costs be. Hence, deflation would create its own brake in the form of real interest rates, which would tend to force the bulk of the monetary contraction on output rather than on prices. Moreover this problem would be all the more serious, the greater was the lag in the exchange rate that needed correction, and consequently the greater the absolute fall in prices required.
- 23/ If we insist on this point it simply is because many, notwithstanding their recognition that there was an important lag in the exchange rate which needed correction, argued that a devaluation would be ineffective. For they believed that it would very rapidly be wiped out by a similar rise in the rate of inflation. To be sure a devaluation could set off a new inflationary spiral. Yet this need be so only if the starting point were one already in equilibrium. For then any attempt to improve the trade balance via a devaluation would soon be limited by a fully utilized productive capacity, thus leading to a price rise which would rapidly eliminate whatever transitory balance of trade improvement had taken place. But in such circumstances, a deflation would also prove useless. For lower prices would raise demand, foreign and domestic. Since an equilibrium starting point is posited, prices would begin to rise, wiping out the deflation and the transitory gains in competitiveness and in the balance of trade.

A devaluation of the exchange rate or deflation can, however, be effective if the starting point is one of disequilibrium, in which domestic prices are above international ones. For the resolution of this disequilibrium requires a real depreciation. Whether this be best achieved raising the prices of international goods to those of comparable national ones (devaluation) or lowering the prices of domestic goods to international levels (deflation) is another matter. Either way is theoretically feasible, once the starting point is in disequilibrium. Thus, this whole debate was rather bizarre, for it was premised on a continuing equilibrium, whereas a lag in the exchange rate implied precisely the contrary, namely that domestic prices were above international, and equilibrium, levels.

Table 1

SOUTHERN CONE: GROWTH OF MONEY, PRICES, AND PRODUCT, 1950-1970

(Annual rates of growth)

	Argentina			Chile			Uruguay		
	M	P	GNP	M	P	GNP	M	P	PIB
1950	23.2	26.0	1.6	16.4	15.1	4.8	22.0	-7.1	3.1
1951	22.7	30.8	3.9	32.1	22.6	5.3	-1.3	15.4	8.2
1952	13.2	41.2	-5.1	37.0	23.1	3.4	9.0	15.6	-0.4
1953	25.7	5.0	5.4	53.0	25.0	7.1	12.9	5.8	6.5
1954	19.7	16.0	4.1	47.0	71.0	0.7	7.3	14.5	5.7
1955	18.0	14.3	7.1	63.0	84.2	2.7	5.8	7.9	1.6
1956	16.6	12.5	2.8	38.0	37.5	0.7	11.9	7.4	1.7
1957	13.0	25.9	5.1	25.0	25.0	2.6	8.4	13.7	1.0
1958	22.8	32.4	6.1	33.3	30.8	4.8	20.4	18.1	-3.6
1959	50.7	100.0	-6.4	37.5	37.4	6.9	35.0	39.8	-2.8
1960	34.9	20.0	7.8	18.1	13.6	5.1	40.8	37.2	3.5
1961	17.9	16.7	7.1	27.8	9.0	6.1	25.3	23.4	2.9
1962	7.1	28.6	-1.6	25.0	12.9	4.6	7.2	10.3	-2.2
1963	20.0	22.2	-2.4	33.9	44.6	5.1	16.0	21.0	0.5
1964	38.9	22.7	10.3	41.1	50.0	4.2	70.7	42.4	2.0
1965	32.0	25.9	9.1	55.2	22.2	5.0	56.0	56.7	1.1
1966	30.3	35.3	0.6	51.4	27.3	7.0	70.1	73.3	3.4
1967	34.9	28.3	2.7	28.4	21.4	2.4	51.1	89.3	-4.1
1968	32.8	15.3	4.3	30.1	23.5	3.0	86.5	125.4	1.6
1969	16.9	8.8	8.6	24.0	28.6	3.5	69.2	21.0	6.1
1970	12.2	12.2	5.4	58.1	33.3	3.6	31.3	16.3	4.7
1950-1970	24.3	23.8	3.7	37.7	30.3	4.2	29.5	29.4	1.8

Sources: International Monetary Fund, International Financial Statistics May 1976, and Yearbook 1980; ECLA, Series Históricas del Crecimiento de América Latina

Note: M = Money, M_1 ; P = index of consumer prices; GNP = Gross National Product

Table 2

SOUTHERN CONE: BASIC MONETARY AND MACROECONOMIC INDICATORS

	Argentina					Chile					Uruguay				
	Rates of growth				Public surplus	Rates of growth				Public surplus	Rates of growth				Public surplus
	Nominal devaluation	P	M	GNP		Nominal devaluation	P	M	GNP		Nominal devaluation	P	M	GNP	
1973	14.6	61.2	86.3	3.6	-4.4	455.0	441.0	259.1	-5.6	-24.7	55.4	97.0	63.5	0.4	-1.2
1974	-5.3	23.3	93.0	6.2	-5.4	649.5	497.8	314.6	1.0	-10.5	39.0	77.2	80.0	3.1	-3.8
1975	311.2	182.5	90.5	-0.8	-10.3	490.3	379.2	239.2	-12.9	-2.6	89.1	81.4	50.1	5.9	-4.3
1976	282.5	443.2	399.4	-0.5	-7.2	165.3	232.8	216.0	3.5	-2.3	47.7	50.6	67.9	4.0	-2.0
1977	191.1	176.1	176.2	6.4	-2.8	64.9	113.8	156.7	9.9	-1.8	39.9	58.2	45.3	1.2	-1.3
1978	95.2	175.5	142.8	-3.0	-3.2	47.0	50.0	81.2	8.2	-0.8	28.9	44.5	53.0	5.3	-0.9
1979	65.5	159.5	131.4	7.1	-2.7	17.7	33.4	60.0	8.3	1.7	29.3	66.8	99.5	6.2	-
1980	39.5	100.8	115.8	1.1	-3.6	4.7	35.1	62.6	7.8	3.1	15.7	63.5	34.9	5.8	-0.3
1981	139.6	104.5	53.9	-5.9	-11.3	-	19.7	23.4	5.7	1.6	18.7	34.0	33.9	-0.8	-1.5
1982	488.8	164.8	195.7	-5.7	-7.5	30.5	9.9	-5.5	-14.1	-2.4	36.2	19.0	-0.8	-8.7	-14.0
1983 ^p	440	320	325	2.0		58	30		-0.5		130	45		-5.5	

Source: ECLA, on the basis of official sources; International Monetary Fund, International Financial Statistics, various numbers

Note: P = Index of consumer prices; M = Moeny, M_1 ; GNP = Gross National Product; p = preliminary

Table 3

SOUTHERN CONE: INDICES OF INCOME DISTRIBUTION

Indices: 1970 = 100

	Argentina		Chile		Uruguay	
	A	B	A	B	A	B
1970	100.0	100.0	100.0	100.0	100.0	100.0
1971	98.3	98.8	116.3	113.0	106.3	106.5
1972	81.1	81.9	108.9	105.7	88.3	89.1
1973	84.1	86.4	84.1 ^{a/}	82.2 ^{a/}	84.2	87.0
1974	97.9	94.5	64.9	63.6	86.4	86.9
1975	95.9	95.8	71.8	65.0	-	-
1976	64.4	64.3	71.1	64.2	75.2	73.1
1977	61.4	60.8	73.7	65.7	70.4	69.0
1978	64.2	63.5	77.5	68.7	62.3	61.5
1979	69.2	69.1	81.8	71.6	57.4	57.2
1980	76.9	77.5	86.1	74.1	58.1	57.7
1981	73.2	73.2	92.6	78.5	65.7	64.7
1982	70.4	69.8	99.1	78.5	70.3	69.2

Source: ECLA on the basis of official sources

Note: Variations in the index indicate whether the share of labor in gross domestic income has improved (above 100) or worsened (below 100) with respect to the base year.

$$(S_R)(O)$$

A = The index is defined as $\frac{Y}{(S_R)(O)}$, where S_R = real wage; O = index of the number of employed; Y = Gross Domestic Income (gross national product adjusted by the effect of the variation of the terms of trade).

B = An index defined as above (A), but which deflates by Gross National Product instead of Gross Domestic Income.

^{a/} The first 8 months of 1973.

Table 4
SOUTHERN CONE: INDICES OF REAL EFFECTIVE EXCHANGE RATE
(1980 = 100)

	A			B		
	Argentina	Chile	Uruguay	Argentina	Chile	Uruguay
1970	144.6	133.2	110.5	166.6	80.5	62.9
1971	137.2	122.4	101.7	157.6	54.9	53.4
1972	155.2	128.4	125.7	210.8	54.0	117.1
1973	148.5	142.8	107.5	177.4	99.5	81.5
1974	126.9	124.5	103.6	130.0	164.0	80.4
1975	194.1	133.4	119.3	217.6	224.6	95.9
1976	127.9	116.0	127.1	234.6	181.0	108.4
1977	164.9	112.4	126.1	277.6	166.3	116.2
1978	148.8	130.2	122.9	227.7	129.7	120.5
1979	111.7	116.4	103.9	143.0	124.1	120.5
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	125.8	89.8	95.8	144.3	76.1	82.4
1982	163.2	105.1	110.8	281.7	85.5	90.8

Source: ECLA, on the basis of official sources; methodology explained in ECLA,
Economic Survey of Latin America, 1981, Statistical Appendix

Note: A = indices deflated by the index of wholesale prices

B = indices deflated by an index of wages

The lower the index, the cheaper are imports in domestic currency, and the more expensive are exports.

GNP = Gross National Product
 X = the value of exports of goods and services

Table 5

SOUTHERN CONE: INDICATORS OF EXTERNAL ACCOUNTS

		<u>ARGENTINA</u>										
				<u>I</u>			<u>II</u>			<u>III</u>		
		1950-70	1971-75	1976	1977	1978	1979	1980	1981	1982	1983	
1.	Current Acct. Deficit/X <u>a/</u>		-9	-14	-17	-25	6	48	43	28	21	
2.	Terms of Trade	109	119	93	89	90	98	110	100	89	86	
3.	Foreign Debt/X <u>a/</u>		1.9	1.8	1.5	1.7	2.1	2.8	3.3	4.3	4.5	
4.	Tradables/GNP <u>b/</u>		44	43	43	42	42	40	38	40		
5.	Annual Growth of Exports											
a)	value	2.1	10.7	32	43	14	23	8	10	-17	3	
b)	volume	2.6	-3.2	32	41	6	-3	-10	15	-6	11	

		<u>CHILE</u>											
				<u>I</u>			<u>II</u>			<u>III</u>			
		1950-70	1971-73	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
1.	Current Acct. Deficit/X <u>a/</u>		29	13	27	-5	22	38	26	34	88	49	23
2.	Terms of Trade	-67	81	88	55	59	54	49	55	52	45	40	41
3.	Foreign Debt/X <u>a/</u>		2.7	1.9	2.6	1.9	2.0	2.3	1.8	1.9	2.8	3.4	3.8
4.	Tradables/GNP <u>b/</u>		45	47	45	46	45	43	43	42	41	40	
5.	Annual Growth of Exports												
a)	value	7.7	5.4	59	-21	31	8	13	58	29	-8	-9	4
b)	volume	3.0	1.8	18	9	19	7	8	24	15	1	9	0

		<u>URUGUAY</u>										
				<u>I</u>			<u>II</u>			<u>III</u>		
		1950-70	1971-74	1975	1976	1977	1978	1979	1980	1981	1982	1983
1.	Current Acct. Deficit/X <u>a/</u>		10	36	12	21	15	30	47	28	15	7
2.	Terms of Trade	104	115	80	79	85	89	97	95	89	88	88
3.	Foreign Debt/X <u>a/</u>		2.1	1.9	1.6	1.6	1.4	1.4	1.4	1.8	2.8	3.3
4.	Tradables/GNP <u>b/</u>		44	43	43	43	42	42	40	39	32	
5.	Annual Growth of Exports											
a)	value	-0.4	15	-23	32	43	14	23	8	10	-17	3
b)	volume	0	-0.3	-11	32	41	6	-3	-10	15	-6	11

Source: ECLA on the basis of official sources

Notes: a/ X = exports of goods and services
b/ GNP = Gross National Product

Table 6

SOUTHERN CONE: THE EVOLUTION OF NET AVAILABLE FINANCIAL RESOURCES AND ITS RELATIONSHIP TO EXPORTS AND GROSS NATIONAL PRODUCT

	Argentina				Chile		
	1980	1981	1982	1983	1980	1981	1982
1. Net Capital Flows (Millions of US\$)	2 176	1 519	1 807	1 900	3 345	5 008	1 096
2. Interest and other Factor Payments (Millions of US\$)	1 607	3 701	4 755	4 800	1 028	1 464	1 920
3. Net Transfer of Financial Resources (NTFR) (3)=(1)-(2) (Millions of US\$)	569	-2 182	-2 948	-2 900	2 317	3 544	-824
4. Net Transfer of Financial Resources/X <u>a/</u>	6%	-20%	-33%	-31%	39%	64%	-16%
5. Variation in the Terms of Trade (T of T) as a % of X <u>a/</u>	12%	-9%	-11%	-3%	-5%	-14%	-11%
6. Additional Capacity to Import because of improved T of T and NTFR, (6)=(4)+(5)	18%	-29%	-44%	-34%	34%	50%	-27%
7. Rate of Growth of Quantum of Imports	49	-12	-44	-17	13	20	-3
8. GNP <u>b/</u>	1.1	-5.9	-5.7	2.0	7.8	5.7	-14.

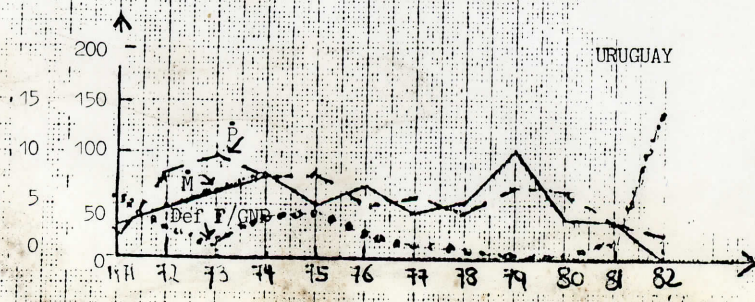
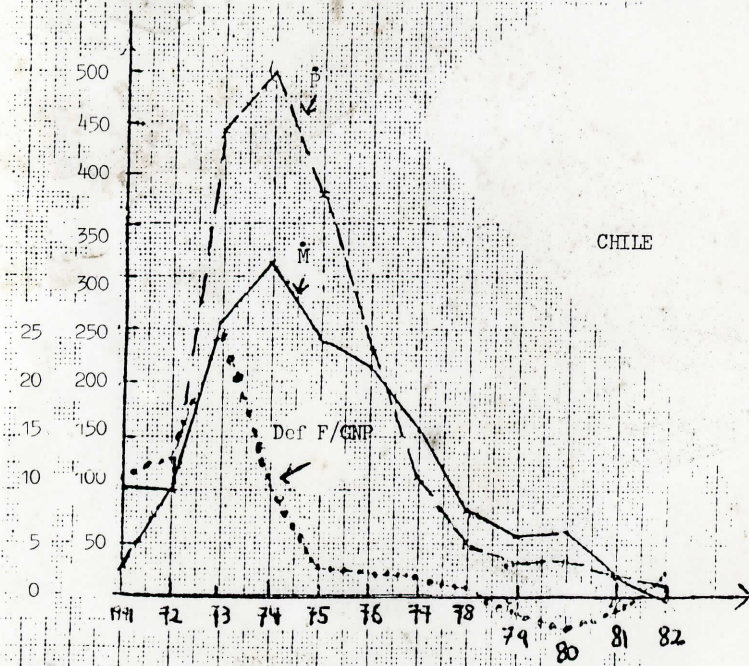
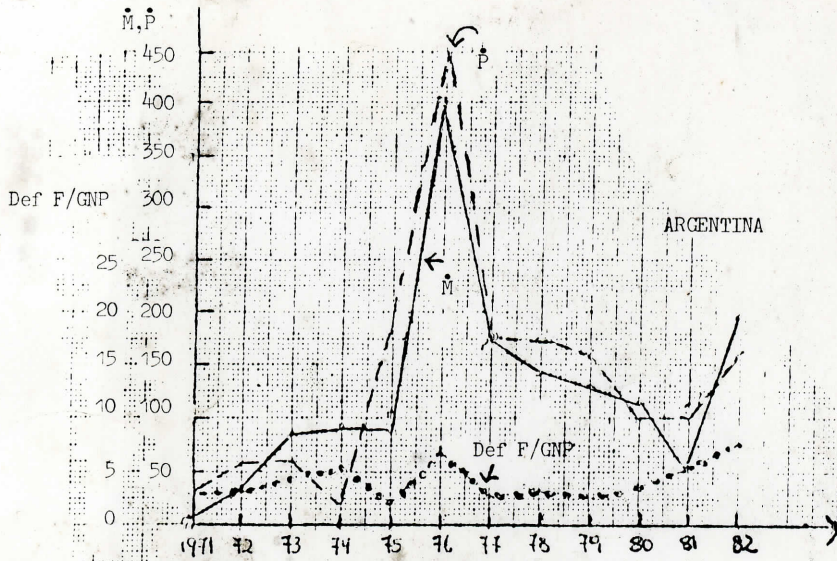
Source: ECLA on the basis of official sources.

a/ X = The value of exports of goods and services.

b/ GNP = Gross National Product.

GRAPH 1

INFLATION(\dot{P}), EXPANSION OF MONEY SUPPLY (\dot{M}) AND FISCAL DEFICIT (Def F/GNP)



EXPORTS, NET TRANSFER OF RESOURCES AND FINANCING AVAILABLE FOR IMPORTS (NET)

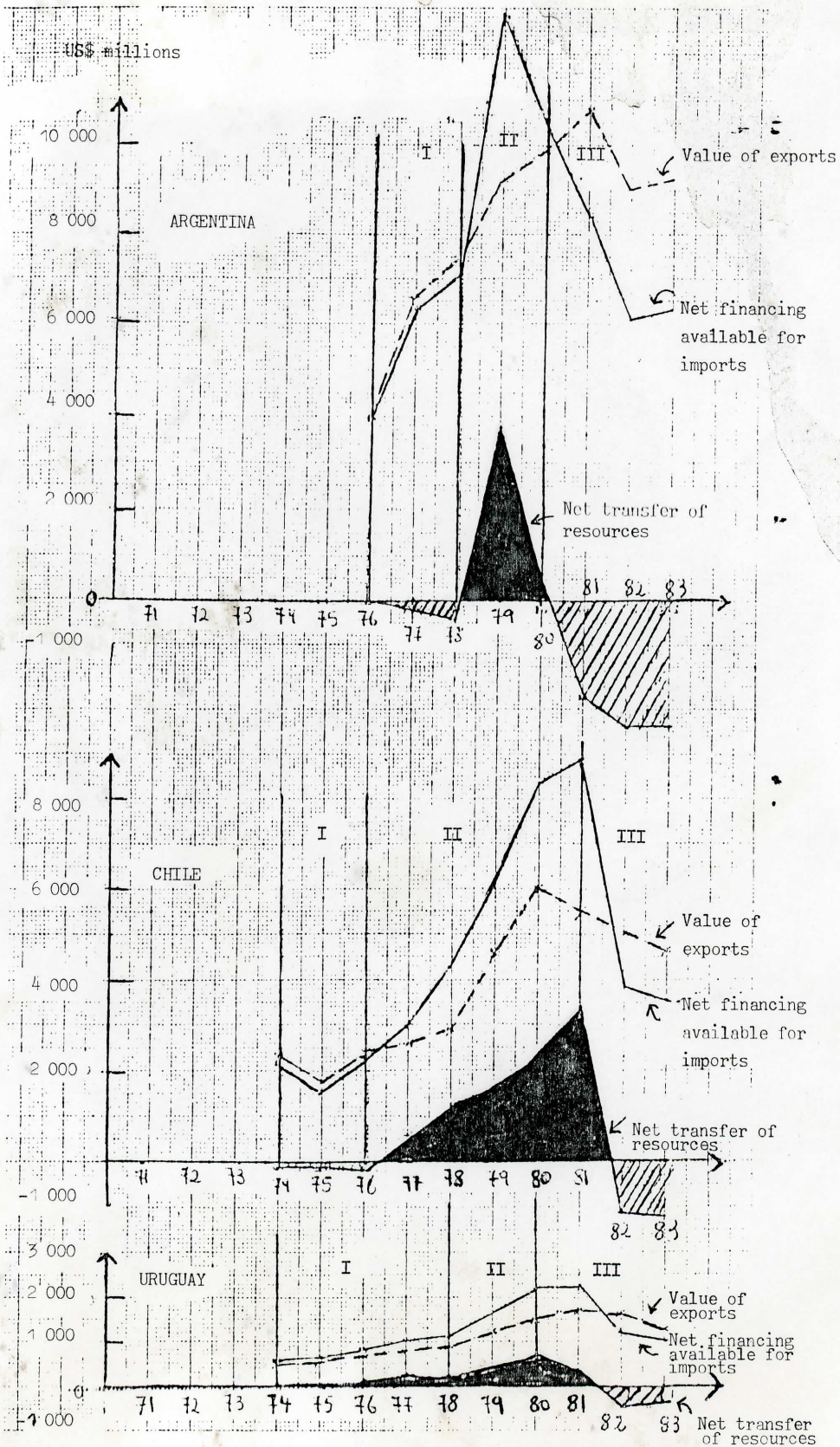


Table 9: Multilateral Debt Renegotiations, 1975-1983

(millions of US Dollars)

Multilateral Debt Renegotiations, 1975-1983
(millions of U.S. dollars)

Country	Number of reschedulings, 1975-83	1975-80		1981		1982		1983 ^a	
		Paris Club	Commercial bank	Paris Club	Commercial bank	Paris Club	Commercial bank	Paris Club	Commercial bank
Argentina	2		970						(6,000)
Bolivia	2				(444)			(3,800)	(9,800)
Brazil	2							(13)	
Central African Rep.	2			55					(4,100)
Chile	2	216						(107)	(1,259)
Costa Rica	2								(660)
Dominican Republic	1							(200)	(2,150)
Ecuador	2								
Gabon	1	105 ^b							(24)
Guyana	3		29				14		(122)
Honduras	1								
India	3	436 ^c							(166)
Jamaica	3		126		103			27	(25)
Liberia	4	30		25					(195)
Madagascar	3			142		103			(30)
Malawi	3					24			(57)
Mexico	2							2,000 ^d	(22,550)
Morocco	1							(1,200)	
Nicaragua	3		582		190		(55)		(29)
Niger	1								(1,830)
Nigeria	1			263 ^c					
Pakistan	1							(450)	(2,320)
Peru	4	478	821					(195)	(572)
Romania	4					(234)	(1,544)	(81)	(92)
Senegal	4			77		84			
Sierra Leone	2	66						550	
Sudan	4	373				638	174	(300)	(84)
Togo	5	170	68	(92)					
Turkey	5	4,696 ^c	2,640		(3,100)				
Uganda	2			27		(10)			(170)
Uruguay	1								(3,800)
Yugoslavia	1							(1,600)	
Zaire	6	1,594	402	574				(320)	
Zambia	1								
Total	84	8,164	5,638	1,255	4,475	629	1,640	10,900	56,487

Note: Arrangements concluded with commercial banks and official creditors in the same year are regarded as separate reschedulings.

a. Covers arrangements signed, or agreed in principle, through December 1983. Cuba and Poland, which also renegotiated debt-service payments with commercial banks during 1983, are not members of the World Bank and, therefore, are excluded from this table. Panama's debt-restructuring agreement, signed with commercial-bank creditors in September 1983, was a refinancing, rather than a postponement or formal rescheduling of maturities, and also is omitted. Figures indicate rescheduled amounts as reported by the countries or, if in parentheses, as estimated by IMF or World Bank staff.

b. This was an agreement of a special task force.

c. Refers to Aid Consortia Agreements.

d. This was an agreement of a creditor-group meeting.