BOOK REVIEWS

The Development Crisis: Blueprint for Change. **By Carlos Geraldo Langoni.** San Francisco, California: International Center for Economic Growth, 1987. Pp. 158.

Carlos Langoni was President of Brazil's Central Bank when the developing country "debt crisis" began in 1982. This book consists of his reflections on debt and development strategy. Although the book was first published in Portuguese, this English edition has been revised to address international concerns. By 1987, when this edition appeared, Mr Langoni's views were conventional enough to be endorsed in a foreword by Paul Volcker, former Governor of the U.S. Federal Reserve. Nevertheless these ideas, and only some of them, are just now passing into practice.

Mr Langoni's theme is that Latin America's debt crisis derived jointly from mistakes by debtor governments, by the lending banks, and by the multinational institutions. Beginning in the late 1960s, Latin American governments based their development strategies on growing government involvement funded by domestic and foreign borrowing. The private sector's complicity was bought with subsidies. The result has been enormous and inflationary domestic deficits, mountainous foreign debt, and hopelessly inefficient production. These problems were exacerbated by massive capital flight.

Such problems may at last be under repair as Latin American governments belatedly withdraw from the market and liberalize their economies. Chile, with some brutal political repression and economic errors along the way, was the first to liberalize and now has the healthiest economy in Latin America. Argentina, Brazil, and Mexico have begun the process, too.

Mr Langoni also indicts the international banks for their aggressive lending policies between 1973 and 1982, and the official institutions for their short-term focus. He argues that both private and official lenders should commit themselves to enough long-term lending to reverse the "negative transfer" of resources from debtors to creditors, currently running at $37 billion per year. He also wants automatic capitalization when interest rates rise above their long-term "equilibrium", and longer-term assessment criteria for the IMF. Finally, he enjoins the industrialized world to consider the effect on developing countries when they formulate trade policies, interest rate policies, and their posture towards the multilateral agencies.

Mr Langoni singles out debt equity swaps — voluntary conversion of sovereign (or private) debt into equity investment — as a welcome and potent new tool for debt relief. Brazil's debt equity swaps began on an *ad hoc*, unofficial basis in 1982, and by 1989 it had reduced its commercial bank debt voluntarily by $8 billion or almost 10 per cent. Chile pioneered official debt conversion, and has now reduced its bank debt by $6 billion or 37 per cent. Mr Langoni also foresees possibilities for exit bonds and debt buybacks, neither of which had yet been used to reduce sovereign debt when he was writing. And he calls on the United States to take leadership in co-ordinating debt relief.

Much of this is now underway. The Baker Plan was launched in 1985 to pressure official lenders and especially commercial banks to accelerate their lending, with liberalization by the debtor countries as a *quid pro quo*. Although it demonstrably failed — in fact commercial bank lending fell sharply while the Plan was in place — the last three years have seen considerable increase in bilateral and multilateral official lending. The Brady Plan, announced in March of 1989, stands a better chance of success because it has offered banks debt relief as an alternative to further lending. Voluntary debt conversion into exit bonds, as well as debt buybacks, will be underwritten with substantial commitments of funds from the IMF and the World Bank. If these funds prove sufficient to sign up some banks for debt relief, the debtors' growth prospects and ability to pay may improve enough to induce other banks, who eschew debt relief, to lend more.

To the reader familiar with East Asia, Latin America's debt woes may seem unnecessary and self-induced, since countries like Indonesia, Korea, Malaysia, the Philippines, Taiwan, and Thailand all had comparable debt-to-GDP ratios in the early 1980s. Since then, only the Philippines has experienced serious difficulty in making payments. Moreover, all these countries except Indonesia have reduced their ratios of debt service to exports, most of them dramatically. Indonesia has suffered from the decline in oil prices, but it has conscientiously met IMF adjustment conditions and in recent years has garnered a lion's share of new lending. Indeed in 1988, 80 per cent of new commercial bank lending went to just three countries: China, India, and Indonesia.

Southeast Asian debtors have achieved this by growing out of their debt: by expanding exports so rapidly that their debt service burdens have plummeted. For example, Korea's ratio of debt service to export revenue fell from 24 per cent in 1986 to an estimated 11 per cent in 1989. The difference from Latin America is that all these countries (except the Philippines) kept government spending and government regulation under control. The result has been manageable internal deficits, moderate-to-low inflation, and dramatic increases in productivity and export production. Sadly, Latin America now needs debt relief and new lending, but success in the long haul will depend on continued liberalization and privatization. For readers in Southeast Asia, Mr Langoni's book stands as a powerful case study of mistakes to avoid.

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How to End Up an Utter Failure as Minister of the Economy: Lessons That Emerge from 20 Years of Argentine Economic Policy. **By Juan Carlos de Pablo.** California: International Center for Economic Growth, 1988. Pp. 48.
Some Problems in Implementing Economic Policy. **By Jesus Silva-Herzog.** California: International Center for Economic Growth, 1988, Pp. 20.

The design of good economic policies, not only in Argentina and the rest of Latin America but also in other parts of the world, including Asia, requires two important ingredients: the first is an expert knowledge of the way in which economies work and the details of the existing economy in which the economic policy is to be implemented. The second is a detailed knowledge of the political situation, the power matrix of competing ministries and the social pressure groups that will impinge on the policy formulation and implementation process. The knowledge and experience thus required goes far beyond what an economic technocrat can offer, and that is one reason why the post of Economics Minister is frequently filled by more politically oriented and politically experienced decision-makers. However, their knowledge of economics may be more general.