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Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

ECONOMIC POLICYMAKER CHANGES IN THE THIRD WORLD

Summary

Available evidence does not indicate that recent changes in senior economic policy positions in key LDCs such as Mexico and Argentina, for example, are designed to pull LDC debtor nations into a confrontational grouping. In reaching this judgment we have examined the full range of Embassy reporting [redacted]

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The resignations over the past several weeks of economic policymakers in Argentina, Mexico, Chile, and Egypt largely reflect domestic political concerns such as the desire of heads of state or government to appoint officials who are philosophically agreeable. They also indicate the inevitable dichotomy between tough policies needed to put problem economies back on track and the desire to maintain the political backing of powerful constituencies. These sorts of changes among policymaking positions are likely to persist so long as countries' international and domestic economic problems erode popular expectations of ever-increasing living standards. [redacted]

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This memorandum was prepared by [redacted] Office of Global Issues. Information available as of 6 September has been used. Comments and queries are welcome and may be addressed to the Third World Issues Branch, Economics Division, Office of Global Issues [redacted]

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Introduction

The past several weeks have witnessed changes in key economic policymaking positions in a number of less developed countries.

- o Argentina's economy minister and the central bank president both resigned.
- o Mexico's central bank director resigned.
- o The Egyptian government eliminated the position of Deputy Prime Minister for Economic Affairs.
- o Chile combined the ministries of finance and economy into one and the president of the central bank resigned.

While these changes are striking in their immediacy and their concurrence, they do not impress us as unusual. They probably reflect the continuing inability of governments in less developed and industrial countries alike to find politically acceptable solutions to deep-seated economic problems. Indeed, the spate of resignations, while related to political circumstances in specific countries, offers a strong indication of the deteriorating state of LDC economies. [REDACTED]

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The LDCs are going through tough economic times. The effort on the part of many LDC leaders to insulate their economies from the cumulative impact of global recession and two oil price crises has finally caught up with them. Over much of the past decade LDCs attempted to stimulate and borrow their way out of oil-price-induced downturns while simultaneously adjusting their economies to higher import costs and international payments deficits. With fiscal and monetary expansion proving far easier than tough adjustment, LDCs in general have fallen victim to accelerating inflation that undermined competitiveness and weakened exports and negative interest rates that eroded incentives to save and encouraged capital flight. In addition, unexpected events such as war (Argentina) and a falloff in oil revenues (Mexico) have added to countries' economic management woes. [REDACTED]

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Country Situations

We have looked at the changes that have taken place over the last several months at the economic policymaking level in a number of countries. Nearly all appear to have been stimulated by domestic conditions and to have been implemented for political rather than economic reasons. [REDACTED]

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Mexico

The resignation last week of the head of the Bank of Mexico, Miguel Mancera, apparently was in protest over President Lopez-Portillo's nationalization of banks and the tightening of exchange controls. Next to go could be Finance Minister Silva-Herzog because his position is undermined by the appointment to the bank of Carlos Tello, who like Lopez-Portillo favors deeper government involvement in the economy. Both Mancera and Silva-Herzog are the architects of Mexico's current debt relief efforts and have established credibility with the IMF and international bankers. Ironically, both were named to their posts in February when their predecessors were forced out as scapegoats for Mexico's devaluation at the time. If Silva-Herzog is forced from the cabinet it would

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be a clear indication the Lopez-Portillo is unwilling to implement austerity needed to reach an agreement with the IMF. [REDACTED]

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Argentina

The resignation in August of Economy Minister Dagnino Pastore and Central Bank President Cavallo apparently were triggered by newly decreed wage increases, but also reflects the serious economic and political turmoil that Argentina is going through in the wake of its costly war with the United Kingdom. The new economic policymakers will have tough sledding. Jorge Wehbe, the new Economy Minister, has promised seemingly inconsistent policies for halting inflation and expanding public spending. In contrast, Julio Gonzales del Solar, who now heads the Bank, favors reduced public expenditures and tighter control over the money supply. Thus, President Bignone has now brought to power an uncoordinated economic policy team unlikely or unable to argue effectively against his growing use of populist remedies to assuage public discontent [REDACTED]

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Chile

Pinochet's cabinet shuffle last month was an attempt to regain political initiative and stem a decline in public confidence. He combined the two ministries of finance and economy, explaining that it was necessary to ensure coherent economic policy formulation during Chile's current economic difficulties. The resignation on 2 September of controversial Central Bank President Kast was probably intended so that the new Minister of Finance and Economy, Rolf Luders, can appoint his own man. Luders is likely to retain the government's commitment to a free market economy but will have to try to accommodate pressures from Pinochet to reduce the impact of recession on workers in the politically strong lower middle class. [REDACTED]

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Panama

The forced resignation last July of left-of-center Aristides Royo as Panama's President and his replacement by conservative banker Ricardo de la Espriella brought wholesale cabinet changes, including new appointments to three economic posts. The former Minister of Planning and Economic Policy owed his position to late President Torrijos and had little political following. The former Minister of Agricultural Development had resigned once before because of a family scandal. De la Espriella also replaced the Minister of Commerce and Industry. Panama's economic policymaking machinery will probably not be hurt by the changes and may well be better off. [REDACTED]

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Other Latin America

New governments were installed in Bolivia in July and in Colombia in August. There have been no major economic policy changes as yet. [REDACTED]

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Egypt

President Mubarak's concern about growing domestic criticism of his failure to deal effectively with Egypt's serious economic problems is reflected in the cabinet changes he instituted this month. He dropped Deputy Prime Minister for Economic Affairs Ibrahim and abolished the position. In his place, Mubarak created a Ministry of International Investment and Cooperation and a Ministry of Economy and Foreign Trade. The shift is designed to convince Egyptians that Mubarak plans to deal more actively with economic problems and avoid excessive caution, which Egyptians have interpreted as indecisiveness. [REDACTED]

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Zimbabwe

Minister of Financial and Economic Planning Chidzero threatened to resign recently over Prime Minister Mugabe's reluctance to defend the Minister's moderate economic policies against radical critics in the cabinet. Chidzero has been frustrated by the lack of fiscal responsibility on the part of many of the ministers. Chidzero's financial and economic expertise is unmatched anywhere in the government. While we expect the moderates to prevail in the cabinet, we cannot dismiss the possibility that Chidzero may become miffed and resign in the face of rejections of his proposals. [REDACTED]

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Other Africa

The Angolan government shuffled the portfolios of key economic ministers in August. Most observers attribute the changes to an attempt to improve economic management. The changes had been rumored for months because of the continued poor performance of the Angolan economy. Other economic policymaking changes that have occurred this year have been due to political rivalries (Kenya and Madagascar) new governments (Mauritius) and blaming the messenger for the message (Liberia, where Minister of Planning and Economic Affairs Byron Tarr consistently preached to Head of State Doe the unwelcome need for hard austerity measures). [REDACTED]

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Asia-Pacific

In the Philippines, Finance Minister Virata's position is currently firm. Constant rumors of shifts among the Philippines economic technocrats are normal and appear to be dying down. In India, Dr. Manmohan Singh will replace Dr. I.G. Patel as central bank governor on 16 September. This is a routine change at the expiration of Patel's five-year term and has no policy implications. [REDACTED]

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