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ADJUSTMENT, GROWTH, AND DEBT FATIGUE

Can the Case-by-Case and Global Approaches Be Combined?

Gustav Ranis

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PREFACE

We are pleased to publish this essay by Gustav Ranis as the seventeenth in our series of Occasional Papers.

Dr. Ranis, who is the Frank Altschul Professor of International Economics at Yale University, has written a thought-provoking proposal for dealing with the debt crisis. His thesis is that the procedures and institutions that have been in use since the debt problem emerged in 1982 are woefully inadequate for achieving a long-term solution. He argues that structural adjustment packages must encompass more fundamental goals and longer time frames, that policy changes must be negotiated to be politically acceptable and conditionality must be self-imposed, and that independent assessment teams should evaluate developing countries' potential for growth to eliminate duplication and conflict between international agencies.

It is clear to leaders in developing and developed countries alike that innovative ideas are required to overcome the crisis and restore growth to the developing world. Dr. Ranis's wide experience as an economic development theorist, professor, and consultant to governments and international organizations and institutions give him a realistic and informed perspective on this important subject. We hope his paper will stimulate discussion about new solutions to the impasse created by the debt crisis.

Nicolás Ardito-Barletta
General Director
International Center
for Economic Growth

Panama City, Panama
August 1989

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ABOUT THE AUTHOR

Gustav Ranis is Frank Altschul Professor of International Economics at Yale University. He has served as a consultant for the U.S. Agency for International Development, the Organization for Economic Cooperation and Development (OECD), the United Nations Food and Agriculture Organization (FAO), the United Nations Industrial Development Organization (UNIDO), the International Bank of Reconstruction and Development, and a number of other groups. Dr. Ranis has written widely on economic development issues, and his books include *The State of Development Economics: Progress and Perspectives* (with T. P. Schultz), *Comparative Technology Choice: The Indian and Japanese Cotton Textile Industries* (with K. Otsuka and G. Saxonhouse), *Japan and the Developing Countries: A Comparative Analysis of Development Experience* (edited with K. Ohkawa), *The Taiwan Success Story: Rapid Growth with Improved Distribution in the Republic of China, 1952–1979* (with S. W. Y. Kuo and J. C. H. Fei), and *Development of the Labor Surplus Economy: Theory and Policy* (with J. C. H. Fei).

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GUSTAV RANIS

Adjustment, Growth, and Debt Fatigue

Can the Case-by-Case and Global Approaches Be Combined?

The LDC debt problem appeared on the world stage in 1982 and shows no sign of abating. In fact, it is getting worse—not simply because total LDC indebtedness today (at $1.2 trillion) is larger than it was in 1982 ($800 billion), but because we have since exhausted a number of seemingly easy remedies and, in the process, overtaxed the patience of perhaps the most important participants in the apparently endless debt negotiations process: DC (developed country) commercial banks and LDC (less-developed country) citizens. Nor are the other actors—the international institutions (International Monetary Fund, World Bank, regional development banks), individual DC donor/creditor governments, and individual LDC debtor governments—particularly sanguine about the progress made to date, but they are better able to persist in a wait-and-see stance, at least for the time being.

The fatigue on the part of DC commercial banks is self-evident: they have refused to commit themselves to the $20 billion of additional lending the 1985 Baker Plan had suggested, and they have had to have their arms severely twisted before agreeing to some debt relief for Mexico under the Brady Plan. Indeed, whenever they have had the opportunity, the banks—especially the smaller ones—have tried to find the nearest exit, even at the cost of substantially writing down existing LDC loans on their books.

The fatigue on the part of LDC citizens, who have borne much of the burden of adjustment so far, still bubbles just below the surface. Increasingly we are seeing the occasional riot—and policy reversal—in such places as the Dominican Republic, Brazil, and Jordan, plus rumblings from the urban workers of Argentina, Peru, and Algeria. To date, there has been a remarkable willingness overall to give the authorities the benefit of the doubt, but it is necessary to ask how long one can expect implicit or explicit social contracts, such as Mexico's recently renewed "economic solidarity pact" restraining wage and price increases, to hold. Sacrifices associated with the past seven years of austerity seem to continue to stretch into the future without any reward in sight. For example, in Latin America, the most heavily affected continent, substantial belt-tightening, associated with both orthodox and heterodox policy packages, has combined with somewhat lower international real rates of interest to generate increased trade surpluses and improved debt/export and interest/export ratios. To pay for such improvements, Mexico's real wages have declined by 50 percent over the past five years; Latin Americans' per capita income at the end of last year was still generally 5 percent below 1980 levels (Colombia being the only exception), and inflation is accelerating again, while investment levels remain low, boding ill for future growth. The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that between 1982 and 1987 $145 billion in net resources were transferred outside the region—not including private capital flight that continued throughout the period.

Nor can we be hopeful about the prospects for an improvement in the external environment. Neither substantially higher growth rates in the countries of the Organization for Economic Cooperation and Development (OECD), nor sustained improvements in the South's terms of trade, nor significant reductions in Northern protectionism are in the cards as far as any trained eye can see. Indeed it requires glasses of the rosiest hue to expect much more than the avoidance of further deterioration on any of these fronts. Given these generally accepted realities, it is important to ask where we are likely to be heading on LDC adjustment and debt.

To date the response to the problem can only be characterized as "muddling through" in Uriah Heep fashion, in the hope that "something will turn up." We have had a series of refinancings, restructurings, and rescue operations in virtually every debtor country, without as yet recording a single unambiguous case of a return to voluntary commercial bank lending; this includes Chile, Mexico, Turkey, and Venezuela, which were seen by some as possible exceptions as recently as 1988. Until we see a sustained return of flight capital by their own citizens—not yet in evidence even in the best cases (Chile and Mexico)—this must remain a rather distant hope.

Pundits have, from time to time, proclaimed the end of the crisis in a particular country's case—after an IMF letter of intent has been signed, or the commercial banks' economic committee has agreed to a new lending package, or the Paris Club has decided to roll over the country's public debt, or as in the latest variant, a World Bank structural adjustment package has been agreed upon, even in the absence of the IMF's prior seal of approval. Sometimes such temporary euphoria has set in because of resolute action by debtor countries, such as the attempt to break inertial inflation via heterodox price and wage freezes, either along with more orthodox fiscal/monetary belt-tightening measures (as in Israel) or without them (as in Argentina and Brazil). Sometimes it seems to be based on the country's success with debt-equity swaps, and sometimes on the fact that DC banks today appear to be in a much better position to weather a rash of defaults than they were a few years ago.

At other times, we hear dire warnings about the possible harm to international trade, global recovery, and even the international monetary system if the crisis is not "solved." Equally fickle is the international financial community's treatment of individual debtor countries, which are acclaimed as model debtors one year and destabilizing sinners the next. Mexico, for example, the favorite in 1982–83, became the problem child in 1984, was later hailed as "reenforcing confidence in the world's financial system" (*The Economist*, Oct. 4–10, 1986), and is today the only "successful" case under the Brady Plan. Brazil has been on a very different cycle. Proclaimed as a paragon of responsible behavior in 1984–85, Brazil was virtually in the company of Peru (that is, ready to default) in 1987 and is now back in marginally good graces—though not yet in terms of performance—and is waiting in the Brady Plan queue. Judgments seem to depend on when one opens the financial papers and to what page.

At the very end of this particularly dark tunnel, it is hard to perceive anything but a choice between de facto individual country mini-defaults and massive de jure multicountry maxi-defaults. The small-country default option is no longer considered so unthinkable. A number of small debtors, including Peru, Ecuador, Nicaragua, and the Ivory Coast, are already technically in default, and Brazil, a large debtor, was recently at the brink. Nevertheless, in spite of the increased preparedness of DC banks, who have adjusted their loss reserves upward and their expectations downward, defaults by the large debtors, even if not collusive, could prove painful to the international financial system—especially if the timing is "awkward" (for example, if defaults come in the wake of an adjustment in the world's stock markets). There is no doubt that defaults would indeed hurt debtors deprived of their valuable trade credits as well as creditors deprived of important markets. While the interwar experience with outright default indicates that capital markets have relatively short memories and don't discriminate effectively among countries, it should also be recalled that, short-term sanctions and trade disruption aside, it took forty years and the Great Depression for private capital flows to generally reestablish themselves in the wake of that particular episode.[1]

This somber assessment does not mean there has been absolutely no progress since the debt crisis first erupted. In fact, surprising resilience has been in evidence on the part of all the relevant actors, from the international agencies and the creditor governments and their commercial banks, to the debtor governments and even the most vulnerable strata of their populations. The IMF and the World Bank, for instance,

1. See Barry Eichengreen, "Resolving Debt Crises: A Historical Perspective," Center for Economic Policy Research, Discussion Paper no. 239 (London, June 1988).

have come to acknowledge the importance of resumed LDC growth, along with adjustment. As a result they have stepped up efforts to find additional resources for lending—via increased quotas, gold sales, capital subscriptions, and the like—and have attempted to be more flexible regarding both the length of instruments and the conditionality attached to them in current negotiations. Even the distributional and poverty dimensions of policy have been permitted back into the discussion—though still mainly at the rhetorical level.

Creditor governments have also begun the search for new solutions. The United States' 1985 Baker Plan, calling for $10 billion of new commercial bank and $9 billion of additional multilateral development bank lending, was "half-baked" from the beginning; there was no incentive for commercial banks to increase their voluntary exposure in countries whose old debt on the books was steadily deterioriating in value; nor did the multilateral development banks have the additional resources to increase their lending — unless they were to shift their loans from more- (not less-) deserving poorer countries and others who had not managed to be counted among the world's fifteen most heavily indebted.

Nevertheless, the unveiling of the Baker Plan, for better or worse, marked the end of U.S. passivity on debt. It generated support for an 80 percent increase in the World Bank's capital and softened opposition to increased resources for the regional banks, as well as to the IMF's establishment of the Enhanced Structural Adjustment Facility, aimed at easing the problems of sub-Saharan Africa. The Paris Club agreed to make multiyear reschedulings of public debt the rule rather than the exception. And at their 1988 Toronto summit, the OECD countries not only came close to simply writing off Africa's official debt, but also began informally to discuss the merits of debt relief as proposed under Japan's Miyazawa Plan, a scheme to help LDC governments buy back some of their own discounted debt.

Yet more recently, the United States unveiled its so-called Brady Plan, which encourages commercial banks to write off a portion of their old LDC debt in exchange for Fund/Bank willingness to collateralize new debt. The most prominent features of these proposals to date has been their vagueness and, if interpreted liberally, the "moral hazard" issues they raise. As to vagueness, it is not clear how either DC taxpayers or the World Bank's triple-A credit rating can indeed ultimately be unaffected, as it is claimed. And as to moral hazard, if a portion of old debt is to be simply forgiven for the asking, there is no assurance that the debtor should not assume further debt relief in the future and that today's new debt won't again be made subordinate to even newer debt down the road.

Meanwhile, DC governments have endeavored to make their commercial bank regulatory apparatuses more flexible and uniform and commercial banks have substantially increased their bad debt reserves. Moreover, all creditors, with varying degrees of fervor, have been encouraging additions to the by now formidable menu of nonconfrontational debt-relief actions, ranging from shaving points off London Interbank Offered Rate (LIBOR) interest margins and servicing part of the debt in local currency, to exit bonds, debt-for-export schemes, and, most prominently, debt collateralization and debt-equity swaps.

LDC governments, for their part, have generally shown a surprising willingness to submit their battered economies to IMF/World Bank scrutiny (the number of African country standbys has never been larger) and to accept—if not always to fully implement—agreed-on packages of policy-change-cum-conditionality. The inevitable adjustment, moreover, has fallen most heavily on the least-protected strata of their societies. To date the demonstrated capacity to accept these sacrifices, given preexisting low levels of income and increasingly open, democratic societies, has been quite remarkable.

The total menu of proposed solutions—those already in practice, those still at the discussion stage, and those that may never see the light of day—may be divided into a "country-by-country approach" and a "global approach." To put it simply, country-by-country solutions are mainly IMF- or World Bank–orchestrated structural adjustment packages, put together with the help of some of the aforementioned debt-relief menu ingredients, intended to permit individual debtors to regain creditworthiness one by one, and thus reenter voluntary private capital markets. Global proposals usually entail a search for additional resources, some sort of general debt relief, or as proposed by economist Peter Kenen, American Express President James Robinson, Senator Bill Bradley, and Congressman Bruce Morrison, among others, the creation of a new multilateral institution (such as an "Institute for International Debt and Development" or an "International Debt and Management Authority") that would buy up national debt at sizable discounts and exchange it with developing countries in return for low-interest, long-term obligations plus policy reform. These proposals vary in detail and in the amount of DC residual budgetary and moral hazard risks implied. By one interpretation of the Brady Plan, for instance, LDC private parties would be encouraged to borrow, could accumulate foreign assets via capital flight, and could then expect their debt to be assumed by their government and to be at least partially forgiven. Private debt could thus be expected to decline in favor of public debt as the Fund and the Bank serve as ultimate guarantors of commercial bank–held LDC debt.

In summary, the trouble with the country-by-country approach thus far is that it hasn't worked, and the trouble with the global approach is that it hasn't really been tried—nor is it likely to be seriously tested in the present DC atmosphere of budget constraints and myopic wishful thinking. At the 1988 IMF/World Bank meetings in Berlin, the United States seems to have distanced itself from the proposed 30–50 percent expansion of the IMF's capital—though there appears to have been some softening since. Only Japan, the DC surplus country par excellence, and the United Kingdom currently seem willing to even contemplate multilateral global ventures. Most creditor countries, in other words, generally prefer to persevere with the present country-by-country approach as managed by the IMF and the World Bank. The indebted countries of the South, on the other hand, are asking for global solutions.

The current discourse has become increasingly unproductive, analogous to the bilateral versus multilateral aid debates of the past, and does not promise to improve. Meanwhile, the fatigue deepens and the various participants, who have been repeating their annual rescue rituals over the past seven years, are becoming visibly more irritated. DC governments are finding it increasingly difficult to sell the notion that an anemic economic recovery plus gadgetry will refloat all the ships, and LDC governments know there is a limit to the number of times they can go to the well and ask for yet one more package of domestic sacrifices. It is small wonder that the House Appropriations Subcommittee in 1988 initially refused to include a measly $70 million U.S.

contribution for a major World bank capital enlargement until "the administration comes forward with a more comprehensive plan to deal with the debt problem." The United States raised essentially the same issue in Berlin, reminding others that maintaining the traditional "revolving-fund" role of the IMF would require a long-term plan. It is high time to try to break the current impasse. I suggest a solution that combines the best features of the case-by-case and the global approaches.

A Suggested Alternative Approach

Allow me to set out a few propositions which suggest, to me at least, the need to alter the way business is presently transacted between the debtor countries and the international creditor/donor community.

1. The post-1982 debt problem really represents the latter-day symptoms of an underlying development problem: perseverance in an import-substitution policy framework even after the "easy" nondurable consumer goods version of that strategy has run out of steam. The advent of exogenous shocks in the 1980s—for example, rises in interest rates and oil prices—revealed fundamental maladjustments that had occurred as a consequence of policy and institutional/organizational choices made in the 1960s in LDCs. These policies include the well-known syndrome of establishing administered prices in a number of factor and commodity markets—such as for foreign exchange, for credit, for cement, for staples—which consequently requires the creation of procedures for rationing out such "goodies" to favored private claimants and/or to the government itself. With large-scale and urban interests at the head of the queue, the result has generally been an increasingly narrow growth path, biased against agriculture and against medium- and small-scale industry and services, especially in the rural areas. This "freezing out" of a preponderant portion of both the working and entrepreneurial population from productive and innovative participation in the system has had a chilling effect on the prospects for moving towards sustained "modern growth" as well as for a more equitable distribution of income and the reduction of poverty along the way. Such problems have consistently lain beneath the surface in most of the heavily indebted LDCs, hidden first by accelerated international growth from 1950 to 1973, and subsequently by the abundance of OPEC petrodollars, recycled through commercial lenders and available to LDC borrowers for the asking. In short, these "bonanzas" permitted inappropriate growth strategies to continue. The weaknesses of these strategies were finally exposed to general view in the early 1980s when OPEC surpluses ran out and the willingness of creditor country banks to keep "playing the game" ended rather abruptly.

This proposition implies that structural adjustment packages are required that are much more "fundamental" than those currently being offered, with their time frames of eighteen months to two years. A lasting solution entails arriving at a concerted vision of what is required in the way of institutional innovations, including changes in the policy mix, to mobilize large groups of rurally dispersed individuals for the development effort—plus the essential willingness to implement the vision. Such a reform will require a five- to ten-year time frame and will require the full understanding and acknowledgment of all the implications as seen by the debtor country's own technicians and politicians—unlike the usual papered-over accord designed to "get the money flowing." Admittedly, this is quite a tall order, and it won't come cheaply, but it is necessary to move in that direction if the credibility of the entire resource flow and LDC adjustment process is to be restored.

2. *Fashioning a genuinely credible adjustment-with-growth-and-equity package for a given LDC cannot be achieved in the routine, stylized fashion we have become accustomed to in recent years, which has given the very term "structural adjustment" a negative connotation.* While the IMF and the World Bank have undoubtedly been subject to unduly bad press for the supposedly monolithic nature of their proposed policy packages—for they have shown substantially increased flexibility in recent years—it still appears that the brunt of the typical debt renegotiation process involves picking from a checklist of short-term IMF demand-side adjustments in fiscal, monetary, and exchange-rate policy, with the World Bank throwing in additional concerns, such as privatization, agricultural prices, tax reform, and the import regime, chosen from a supply-side checklist. What is needed instead is a full-fledged review of the specific characteristics of each of the major debtor

countries in question and an assessment of its position along the growth path. This assessment would be followed by a determination of the country's potential for reentering the international capital market within five to ten years, the actions required to get there, and the preferred sequence of these actions. In other words, we need to fashion genuine structural change packages, including organizational/institutional reforms along with changes in economic policy, together with an estimation of the additional financial resources and psychological reassurances needed to facilitate the adoption of these packages from a political economy point of view.

A structural adjustment program worthy of the name must do more than buy time; it must have a realistic shot at seeing the debtor country reenter the international capital market and realize the return flow of flight capital. Latin American residents alone are rumored to hold more than $90 billion of foreign assets—more than double the reserves currently held in Latin American central bank coffers. Dependable reverse flows of such assets will occur not through proposals to force the repatriation of such funds, but through the credible implementation of thoroughgoing reforms.

3. Required fundamental domestic policy packages and associated international resource flows must be negotiated in a way that is both technically sound and politically acceptable to all parties concerned. On the technical side, there is now a very substantial country-focused fund of human capital within the debtor countries as well as in the international institutions and academia which can be mobilized for this purpose. We have all observed the sharp divergences in postwar performance across similarly situated LDCs impacted by similar exogenous shocks, such as terms of trade deterioration, recession, and protectionism. Consequently, there is general—although by no means unanimous—agreement that there exists ample scope for moving countries dramatically closer to their potential, given enough wisdom, time, and resources. The domestic policy changes surrounding any such long-term adjustment package must, of course, be carefully specified, for it is all too easy to be unrealistic about what can be agreed upon and, more important, implemented over any five- or ten-year period, especially within an increasingly restive democratic LDC environment. At the same time, the additional resources required must be thoughtfully assimilated; while more resources can obviously ease temporary adjustment pains—for example, by making up for local revenue shortfalls occasioned by tariff reductions or by alleviating short-term foreign exchange shortages caused by exchange-rate changes—they can just as easily reduce the perceived need for longer-term policy change in the first place, simply by allowing a country to buy more time. Economists have long recognized the possibility that additional inflows of foreign exchange can be harmful if they strengthen the exchange rate unduly—in terms of the competitiveness of exports—via what is often called the "Dutch disease." But they have not adequately taken into account the broader political economy version of that disease which can cause countries to relax because the pressure is (at least temporarily) relieved.

The current mode of doing business between debtor and creditor seems strangely untouched by two critical questions: how can the most affected parties be assured that this year's package will be any different from last year's, and why does it merit the support of more than a narrow technocratic elite? It is therefore essential not only that each country's package be carefully and sensitively negotiated, but also that at least a majority of the country's own decision makers, politicians as well as technicians, be convinced of its intrinsic merits as a way of achieving adjustment with equitable growth along new tracks. While details will inevitably differ from country to country, the chance to tackle the underlying development problem usually requires long-term organizational/institutional reform along with changes in economic policy—both reaching far beyond the customary current adjustment packages, in both scope and duration.

Any true reform package, of course, is likely to concern sensitive matters that touch the nerve of powerful interest groups. For example, import liberalization is bound to be resisted by the established urban industrial class, and more realistic factor prices by organized labor. Moreover, it is misleading to assume, as is often done, that the World Bank is guaranteed easier access and a more friendly reception in this arena than the IMF, because the Bank is more concerned with medium-term growth than with short-term demand. In fact, as the range of issues to be agreed upon has broadened—with less clear-cut separation between the IMF's "demand-side" concerns and the World Bank's "supply-side" issues—and as the necessary jointness of IMF and World Bank concerns with solving the debt crisis has asserted itself, not only the substance, but also the political acceptability of any package must be much more carefully considered than in the past. Whether it is a matter of reality or only of perception, it seems clear that substantial segments of debtor countries' opinion makers—not just the populist "loony left"—view the major creditor/donor institutions with considerable suspicion, even if the "noise level" is often adjustable by local authorities. Debtors see donor agencies as following their own changing fads and agendas, serving special DC interests, blowing hot and cold with respect to conditionality at different times of the year, and most frequently, lacking sufficient knowledge of, or respect for, the domestic political problems of the debtor society. There are, of course, numerous LDC spokesmen who reject all conditionality and focus only on the additional resources needed to restart growth, but they are not in the majority. That majority, often silent, recognizes the need to maintain pressure for the acceptance of structural changes they themselves see as essential; but they feel that any reform program must originate domestically, as the Marshall Plan did in Europe, with technical and financial assistance from the outside.

For each policy-cum-resources package to become part and parcel of the indigenous decision-making and, more crucially, the implementation process, the initiative must palpably shift from the international agencies to the debtor country, and the conditionality attached to the package over any five- to ten-year period must increasingly—in fact, as well as in appearance—be self-imposed. The international community would, in turn, be expected to play a more passive, bankerlike role, continuing with current debt rollover and aid levels, but ready to respond to requests for a temporary major ballooning of resources in relation to the ballooning of policy commitments. No reasonably democratic, politicized debtor country can today afford to submit itself to a program that appears to be imposed by an IMF or World Bank superteam.

4. *We should not leave a major assessment of an individual debtor's potential for fundamental change, and the policies and additional re-*

sources required to get it there, in the hands of major creditor/donor agencies. It is by now well understood that developing countries often do not comply with conditions imposed from the outside and that letters of intent with the IMF and structural adjustment arrangements with the World Bank are in a continuing state of amendment and revision. What is less well understood, however, is that when the chips are down, the creditor/donors' need to stay "in the game" by continuing to lend usually turns out to be more powerful than the need to ensure the quality of the process, a fact which is not lost on debtor-country decision makers. Not only bilateral but also multilateral agencies are viewed as having their own political agendas, pounding the table in one month and the cash register in another, with continuously diminishing credibility at the margin. World Bank teams must always look over their shoulders at the next approaching project loan, and the IMF must be secretive and tough, yet flexible enough so that negotiations never fully break down and tranche releases are only postponed, never canceled. It is this tiresome ritual of consultative group meetings, emergency reviews, bridge loans, and occasional weekend crisis meetings that has helped bring us to the present impasse.

Paradoxical as it may seem, such predictable, periodic rescue operations tend to drown out substantive policy dialogue, and make real long-term change less rather than more likely. Just as the ready availability of OPEC surpluses in the 1970s confirmed to many developing countries the viability of the inefficient growth path they had chosen earlier—in fact, many an incipient reform program was abandoned as a consequence of the easy availability of petrodollars—ill-considered debt relief or automatic rollovers today can have much the same result of aborting movements towards fundamental reform. Only if donors overcome their primeval urge to lend, no matter what, and debtors to buy time, no matter what, can we hope to escape from the current mode of "muddling through" and the virtually continuous cycle of negotiations aimed at yet another agreement on yet another inadequate package.

While we can realistically expect "business as usual" to continue in the majority of debtor countries, a new window should be opened by the creditors. LDC governments interested in initiating a fresh approach to the problem could request a major assessment focusing on both the required policy changes and the additional foreign exchange needs over no less than a five- or ten-year period. Such an assessment, preferably carried out by self-destructing, quasi-independent teams, would be expected to draw upon the substantial expertise and experience that has by now accumulated among major international donors and creditors as well as in the debtor countries themselves. These teams, while independent of the major creditor/donor agencies as well as the debtor government, must be endorsed by all the parties in advance. Pre-endorsement would not, of course, mean that the IMF or the World Bank or the debtor country itself would or could hand over its charter rights and obligations to any third party. Each participant in the process would be expected to reserve its rights and to keep its options open; but what could also be expected, and indeed required, is a stated willingness *ex ante* to take the findings of such teams as the basis for the multilateral negotiations to follow. An additional and by no means negligible by-product of such a process would be the reduction in the annual volume of separate, friction-laden missions, each asking similar questions of the same overworked senior LDC officials. Moreover, both cross-conditionality and conditionality at cross purposes among the various creditors and donors would consequently be minimized.

What is suggested here represents a combination of the best in the country-by-country and global approaches. Assessing precise needs in terms of basic policy restructuring and additional resources can only be done on a country-by-country basis; but the capacity to respond in a fresh and significant way to each country's situation also requires a change in our global arrangements, in the form of additional resources available over a longer period of time and a negotiating process in which creditor/donors are more passive and debtor countries more committed to self-conditionality.

It is legitimate to ask where the extra resources required for such a new approach will come from, especially given the budgetary pressures today facing most creditor countries. In spite of the current talk about the use of surplus-country reserves from, for example, Japan, Taiwan, and Germany, to increase aid and investment flows to Third World debtor countries, it is unrealistic to expect any large-scale capital flows to become available in the near term. Certainly, as the 1988 Berlin

Fund/Bank meetings indicated, there will be strong resistance to any proposal involving non-Japanese DC budgetary contributions. It is also important to remember that the proposition we are considering here involves the ballooning of resources for only a handful of countries at a time—perhaps one or two initially—while "business as usual" continues elsewhere. Only after the success of such an approach in achieving creditable adjustment with equitable growth becomes evident can we expect a queue at this particular new window. At that point, sufficient additional support would very likely become available even from aid-weary and budget-conscious creditor governments. Success in one or two countries would surely serve to demonstrate the cost-effectiveness of the new modality, while our current system can only culminate in either sudden large-scale or more or less gradual defaults. The alternative suggested here may seem a bit romantic at first blush, but it is actually more hard-headed, less costly, and less risky than our present approach to the debt crisis.

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