another and more serious crisis were to be avoided. There was also a recognition that while the IMF had met and successfully managed the 1982 crisis, as time passed its capacity to intervene effectively had diminished. It was at this juncture that the U.S. Administration put forward what has since become known as the Baker initiative.

The Baker Initiative

This was the context in which U.S. Treasury Secretary James Baker addressed the Joint Annual Meeting of the IMF and the World Bank in Seoul, Korea in October 1985. The proposals made in that speech are widely referred to as the Baker plan or the Baker initiative.* The initiative was cast in general terms but the fundamental principle was the recognition that, for developing countries, austerity had to be linked with the promise of growth.

During its visit to Washington and New York, the Committee was told by American officials and bankers, including Deputy Secretary of the Treasury, Mr. Richard Darman, that the Baker initiative represented a dramatic "90 degree change" in the direction of U.S. policy on the international debt question. Until then the approach of the Reagan Administration had been not unlike that of U.S. President Calvin Coolidge who, when the United States was asked by European countries for relief of their World War I debts, responded, "They hired the money, didn't they?" The American approach had involved a classical call for restraint and financial discipline, with a reliance on market forces to achieve the necessary corrections. The new element that Secretary Baker injected into the analysis was a belated appreciation by the U.S. Administration that the economies of many Third World debtor countries were stagnating because they suffered from basic structural problems. "To improve the prospects for growth," which the Baker initiative called for, more time and substantial injections of new capital were needed.

The Baker initiative consisted of three sets of mutually interrelated measures:

- Agreement by debtor governments to apply comprehensive macroeconomic and structural policies aimed at promoting economic growth and balance-of-payments equilibrium without inflation. At the heart of these important structural adjustment prerequisites was a powerful emphasis on supply-side measures, involving a reliance on market forces to generate higher and sustained levels of economic growth. Examples include encouraging private foreign and domestic investment, while cutting down on the number and size of public sector enterprises; reducing import barriers that had prevented foreign competition; and in particular "getting prices right" by putting into place more realistic exchange rates, interest rates, and fiscal policies.
- Increased and more effective structural lending by the multilateral development banks (MDBs) and in particular by the World Bank, to complement the existing role of the IMF. The international financial

* This report refers to these proposals as the Baker "initiative" to emphasize that the U.S. Administration was providing a new impetus rather than offering a precisely designed rescue plan.