place due to the fact that the purchasing power of workers had declined by as much as 25 to 40 per cent between 1980 and 1985:

> The scenario I foresee is this: Between the governments and the people of Latin America there will develop more and more cleavages, because the governments have a commitment to increase the standards of living for the populations and they are unable to do so. As a result Latin American societies will become less and less easy to govern. (8:18)

Among the debtor countries there have already been signs of unrest, if not revolt. In 1984, Peru, facing interest payments on its debt equal to 35 per cent of its gross exports earnings, called a halt and announced it was unilaterally limiting payments on its foreign debt to 10 per cent of its export revenues. Nigeria followed, indicating it wanted to limit debt service to 30 per cent of export revenues. The 11 most heavily indebted Latin American countries, known as the Cartagena Group or the Consensus of Cartagena*, put their views in a declaration after a ministerial meeting in Montevideo, Uruguay in December 1985. Noting that living standards in Latin America had slipped back by a decade in the past five years, they urged that a series of emergency measures be adopted without delay. Of all measures cited, they singled out two as most critical: the need to return real interest rates to their historic levels and the elimination of trade restrictions.

As bankers perceived that austerity adjustment measures introduced by the borrowing countries were not generating the economic recovery they had anticipated, they became increasingly alarmed that they were "throwing good money after bad". Faced with a growing realization that the crisis was not a short-term one and that they were locked into long-term commitments, their instinct was to try to limit their exposure. Bank lending to problem debtor countries almost dried up as a result. It grew harder and harder to maintain the cohesiveness of the international banking community, since those who were least exposed financially were increasingly tempted to cut their losses. Constrained by differing national regulatory regimes, the financial squeeze caused banks in each creditor country to pull in different directions.

In the face of these developments, by 1985 there was an increasing awareness by the debtors, the banks, the international financial institutions and the creditor governments that the ingredients of the package that had been worked out to handle the Mexican crisis of 1982 were failing to resolve the overall problem of Third World indebtedness. Although a major breakdown of the financial system had been averted and the commercial banks had gained time to strengthen their balance sheets, such economic adjustments as the problem debtor countries had put in place were not generating the results needed to resume regular service of their debts. A senior Finance Department official told the Committee:

> I think the impression that had developed by 1985 was that the adjustments in many countries had been skin-deep, affecting largely the external sectors of their economies, the current accounts, and not their inner workings. (3:14)

The implication was that the middle-income debtor countries would have to accomplish more serious long-term structural adjustments to their economies if

* See Appendix B, Glossary of Terms, for list of member countries.