

### III. THE DEBT CRISIS: MYTHS AND REALITIES

#### A. A Decade of "Muddling Through"

How did we arrive at a situation in which much of the world that is most in need of new investment to provide for rapidly-growing populations should find itself groaning beneath a growing mountain of seemingly impossible debt obligations (see Figure 2) to rich-country creditors? There is no single, simple, or universally-agreed set of answers to that question. An ocean of statistics and analysis has so far produced more meetings and well-intentioned reports than it has concrete relief for the debt-burdened poor. A recent review in *Finance and Development* noted that, since 1982, 435 books and 2,940 articles and working papers had been added to the IMF-World Bank Joint Library under the catalogue entry "external debt."<sup>(6)</sup>

It is in fact rather ironic that it was the near-default of Mexico in August 1982 that officially marked the onset of the current "debt crisis." Mexico was not a resource-poor aid recipient, but an oil-exporting, middle-income country with enormous development potential. Some analysts believe that domestic fiscal mismanagement was at least as important a factor in Mexico's balance of payments crunch as the twin "shocks" of spiralling real interest rates and collapsing world oil prices that accompanied the steep 1981-82 recession.<sup>(7)</sup> Whatever the causes and their relative weights, the consequence of Mexico's woes was to set off alarm bells about the threat they posed to the integrity of the international financial system as a whole. Other countries had previously experienced serious external debt difficulties, been forced to appeal to the IMF and to accept hard austerity remedies. Much of Sub-Saharan Africa was already suffering from economic decline since the 1970s. But Mexico was different because of the magnitude of the loans it had received from the major money-centre banks, notably those headquartered in the United States. If Mexico had formally defaulted some banks might not have survived and the international payments system would have been badly disrupted. That could not be allowed to happen.

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(6) Bahram Nowzad, "Lessons of the Debt Decade: Will we learn?", *Finance and Development*, March 1990, p. 12.

(7) See, for example, Anne O. Krueger *et al.*, "Developing Countries' Debt Problems and Efforts at Policy Reform," *Contemporary Policy Issues*, January 1990, p. 1-37.