The Committee's Assessment

Markedly different views are held on the seriousness of the debt problem, on the prospects for the future and on what remedies, if any, should be pursued. The success of the international financial community in averting a collapse of the world financial system at the time of the Mexican debt crisis of 1982 and in adjusting to subsequent threats as they have arisen has been interpreted quite differently by persons reflecting different points of view. Jacques de Larosière, Managing Director of the IMF at the time, told the Committee in early 1986 that "the case-by-case approach has been working reasonably well":

> Adjustment . . . has been taking place in an orderly fashion over the past three and a half years, through countries servicing their debts, the banks rescheduling their profiles of amortizations and the governments and commercial banks lending support to these actions. (6:7)

As would be expected from a person in his position — indeed it would have been destabilizing for him to have expressed any other view — he was very cautious in commenting on the future. He concluded his opening statement to the Committee with the observation that while "I am facing . . . very difficult individual situations, I am not overwhelmed by pessimism". (6:8) Later, in responding to a question and in commenting on the particularly difficult problems faced by the oil-producing countries, he expressed the hope that countries like Mexico and Nigeria could manage their problems "in an orderly fashion." He concluded the thought with the comment, "I think it is possible, but it is a challenge." (6:11)

On the other hand, spokesmen for the position of debtor developing countries were, not surprisingly, much less sanguine about the success of the case-by-case approach and what the future would hold. Mr. Ibarra told the Committee that the governments and countries in Latin America were, in 1986, in a weaker position to deal with debt service than they were in 1982. He continued:

> Muddling through bilateral negotiations is not enough. A more general policy framework must be built by the borrowers and lenders... . Latin America is running out of time.... (8:10)

These views were corroborated by Mr. Sidney Dell of UNITAR, who asked the question: "How long can this austerity be maintained? At best, it is a short-run expedient. It cannot go on indefinitely. No one knows exactly where the crisis point will be reached but there has to be a crisis here". He quoted a former President of the Bank for International Settlements as saying that to adopt a policy of austerity over a long period, simply in order to service debt, "is a bomb with a built-in time fuse." (4:9)

Although there are divergent views as to how the debt problem should be managed and whether and how a breakdown in the world financial system can be averted, everyone acknowledges that there are significant costs and risks in the current situation. The size of the external debt of Third World developing countries has reached alarming proportions. It is creating severe problems for many borrowing countries, several of which have unilaterally imposed limits on the foreign exchange they are prepared to allow to be used to make interest or principal payments on their debts. The middle-income countries like Mexico,