The Baker plan quickly lost momentum although it survived on paper until a new policy was enunciated by the Bush administration. IFI resources and support from donor governments fell far short of what was needed in terms of public flows, and some countries were ineligible because they did not meet strict IMF conditions. Private flows continued to drop, becoming negative on a net basis for the highly–indebted group in 1986. Most banks were withdrawing from all but relatively risk–free Third World lending, building up their reserves against loan losses while disposing of some old debt through sales (at a discount) on secondary markets, debt swaps, conversions, and other voluntary market–based transactions. While this was happening the air was thick with proposals to go further to begin actually writing down the face value of much of the Third World debt.(9) Yet the Baker plan was stuck still calling for more loans and maintaining the fiction that previous sovereign debts would be repaid in full.

A modest official breakthrough did occur at the Toronto economic summit of G–7 industrialized countries in June 1988. The major creditor nations accepted the principle of some debt forgiveness for the poorest countries in Sub–Saharan Africa which were obviously unable to keep up payments on their debts. A "menu" of options involving a reduction of claims, interest rate relief, or rescheduling over longer terms, was subsequently worked out by the Paris Club of official creditors. Unfortunately, rising international interest rates cancelled much of the intended benefit. The World Bank estimates that the Toronto terms saved African countries only about 2% of debt service due in 1989.

Meanwhile the situation in the major Latin American debtors was also becoming untenable. Rioting against measures introduced as part of an IMF austerity plan killed hundreds in Venezuela in early 1989. Debt–driven adjustment was seriously undermining political legitimacy and prospects for peaceful democratic social change, *without* really solving the economic crisis. Where was the gain to show for all the pain? Debt was still piling up and more of it was becoming a public–sector risk. Debt–to–exports ratios were unmanageable. More and more countries were falling into arrears, not only to banks, governments and their export credit agencies, but also to the IFIs, debts to which could not be rescheduled. The economic climate encouraged further capital flight rather than new investment. An indication of the lack of confidence is that by the time Secretary Brady outlined a shift in U.S. policy in a speech to the Bretton Woods Committee in March 1989, the average secondary market price of commercial debt owed to the highly–indebted "Baker 15" countries had fallen to just 29 cents on the dollar.

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(9) For a comprehensive survey see Morris Miller, *Resolving the Global Debt Crisis*, New York: UNDP Policy Discussion Paper, 1989.