commercial banks' role in petrodollar recycling and failed to forecast the consequences.

Finally, while statistics show that developing countries were stepping up their borrowings from foreign banks well before the first OPEC oil price rise, there is no doubt that it was the huge sums of petrodollars deposited by the Arab OPEC countries in western banks and the resulting balance-of-payments problems of oil-importing developing countries that provided a strong stimulus for the excessive borrowing and lending.

Underlying all the misjudgments that were made at the time was, as Mr. Hockin pointed out, an "inflationary euphoria" based on the continuing rise of commodity prices. "Everyone — lenders and borrowers, governments, financial institutions and individuals — were all caught up in this inflation of expectations" that commodity prices would "go on rising and rising, creating conditions for borrowing countries to service their debts without any problems." (13:9-10)

In addition, the Committee was advised that one of the reasons that public and private financial authorities did not ring the alarm on debt build-up was that they did not have adequate information. A New York investment banker observed to the Committee that as recently as 1982 the World Bank was reporting total problem Third World debt as only $125 billion, when in his opinion the actual debt was two and a half times greater. Apart from statistical lags, the Bank did not include short-term debt in its figures, although short-term loans were an important component in the borrowings of the major debtor countries prior to the debt crisis. Indeed, the existence of much of the short-term debt did not even come to light until the debt rescheduling exercises began in 1982. Further, the publication of figures assembled by the Bank of International Settlements in Geneva on the exposure of the commercial banks to individual countries had a significant time lag, as did the fact that maturities of the debt were being shortened for many problem countries. Another aspect of the problem undoubtedly related to the fact that some of the statistical information was held in confidence and not divulged. Mr. Richard Erb, Deputy Managing Director of the IMF admitted to the Committee that there should have been more timely and comprehensive data-reporting procedures, not only for figures on debt, but for economic statistics generally. Hindsight suggests that it would have been helpful to have better surveillance techniques both nationally and internationally. Indeed, the private banks have tacitly agreed to this conclusion, as they have since formed their own organization, the Institute of International Finance, whose primary mandate is to close the information gap by providing data about the borrowing countries.

Initial Responses to the Debt Crisis

The process of managing the debt crisis since the Mexican moratorium of 1982 has been on a case-by-case basis and has resulted in a number of solid achievements. Despite the initial consternation in 1982, there has been no international financial collapse, no major debt repudiations and no failures of major banks related to this international debt problem. Balance-of-payments deficits have been substantially reduced or even turned into surpluses. For example, the ten countries with the largest bank debt were able to transform the merchandise trade deficit of $45 billion, which they had in 1981, into a $25 to $30 billion surplus by 1983,