Book Reviews

Alternative Solutions to Developing-Country Debt Problems. Edited by R. Dornbusch, J.H. Makin and D. Zlowe. Washington, DC: American Enterprise Institute, 1989. 127 pp. $13.95.
Growing out of Debt. Edited by Adrian Hewitt and Bowen Wells. London: All Party Parliamentary Group on Overseas Development and ODI, 1989. 82 pp. $4.95.

If one compares the Third World debt crisis with a long-drawn-out drama in two acts, last year's Brady Plan may mark the start of the second act. Despite a none too impressive first year of achievements, its importance is real. In its acceptance that the volume of debt must be reduced, it provided the first major creditor move since 1982 that could lead to a resolution rather than the perpetuation of the crisis.

These two short books are useful guides to what is at stake as debt strategy shifts from rescheduling-plus-new-money to debt reduction. They are similar in content and genesis. Hewitt and Wells is based on a conference held at the House of Commons in December 1988, three months before US Treasury Secretary Nicholas Brady's fateful announcement, and Dornbusch, Makin and Zlowe on a conference in the USA in April 1989.

Hewitt and Wells's cast list is the more impressive, ranging from then-chancellor Nigel Lawson through respected commentators like John Williamson and Tim Congdon to a select handful of representatives from indebted countries, notably Jorge Navarrete of Mexico and J.L.S. Abbey of Ghana. It trumps the American volume with a chapter by Senator Bill Bradley. Dornbusch, Makin and Zlowe's line-up is narrower: all politicians or academics, all American. Sponsored by a general economic think-tank rather than a parliamentary committee and a development research institute, its scope was likely to be different, and it lacks two moral underpinnings found in Hewitt and Wells: a chapter by Dr Abbey on the African debt crisis, and another by Richard Jolly of UNICEF which argues that Julius Nyerere's rhetorical question of 1986, 'Must we starve our children to pay our debts?', has in practice been answered in the affirmative.

But whatever the Americans may lack in breadth or status, they often make up in quality. Although both books largely comprise short chapters from a variety of writers, their appropriate audiences may be different. Hewitt and Wells will provide an excellent introduction for the generalist to the late 1980s debate on the debt crisis. Dornbusch, Makin and Zlowe has elements of this: Dornbusch's own chapter provides as good a basic analysis of the effects of indebtedness on Third World economies as I have seen. But in tone this work seems more addressed to an audience of professionals who already know the crisis and may be involved with it.

Two elements in particular lend the book greater weight. It reprints Nicholas Brady's March 1989 speech unveiling his initiative while his colleague David C. Mulford explains the policy background. Secondly, the heart of the book lies in three longer and more academic chapters by Makin, Dornbusch and Paul R. Krugman.

The book also contains the most thought-provoking piece in either volume, a short chapter by the World Bank's former treasurer, Eugene H. Rotberg. He starts with a remarkably honest appraisal of the political motives behind the Brady Plan:

> In truth, it does not really matter whether the [debt reduction] transaction results in reduced cash flows from the debtor countries. . . If executed, the initiative. . . could diffuse radicalized movements in countries with fragile political systems.

He then makes the sobering reflection that reducing the stock of debt may have little effect on cash outflows as there may be less 'new money' on offer to cover the remaining interest payments. Net capital outflows, it seems, could still amount to 4% or 5% of a country's GDP.

Seven years on from 1982, debtor default seems to have slipped off the agenda - although Mike Faber makes a brave attempt to reinstate it in Hewitt and Wells. But maybe the only practical solution lies either down this road or (less likely) in creditor countries actively promoting full-scale write-offs. However, Rotberg conjures up another intriguing scenario. He attacks the idea of offering bearer bonds for debt relief since their purchasers would not

> be nearly so malleable as commercial banks in working out the problem. Instead, they will go to court and will attach the assets of the debtor or insist on being bought out by the banks.

Who knows? Perhaps the sight of rich investors and insurance companies attempting to seize Mexico's or Peru's airliners and trade buildings would at last incense public opinion in the creditor countries, creating the political conditions for the logjam to be broken.

Thomas Lines