The Debt Crisis of the 1980s

Law and Political Economy

Jérôme Sgard

Professor of Political Economy, Sciences Po, Paris, France

Edward Elgar
PUBLISHING

Cheltenham, UK • Northampton, MA, USA

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Published by
Edward Elgar Publishing Limited
The Lypiatts
15 Lansdown Road
Cheltenham
Glos GL50 2JA
UK

Edward Elgar Publishing, Inc.
William Pratt House
9 Dewey Court
Northampton
Massachusetts 01060
USA

A catalogue record for this book
is available from the British Library

Library of Congress Control Number: 2023940839

This book is available electronically in the **Elgar**online
Economics subject collection
http://dx.doi.org/10.4337/9781839103636

ISBN 978 1 83910 362 9 (cased)
ISBN 978 1 83910 363 6 (eBook)

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Chronology

1973–1981

October 1973	First oil shock
December 1974	Creation of the Cooke Committee on Banking Regulation and Supervisory Practices, following the Herstatt Crisis (July 1974)
1976	Mexican current account crisis; Peru experiment with bank-managed conditional lending
June 1977	Staff memorandum on 'Fund relations with commercial banks'
June 1978	Jacques de Larosière becomes Managing Director of the IMF
June 1979	Second oil shock
6 August	Paul Volcker appointed Fed Chairman and soon starts tightening US monetary policy
December 1980	Staff memorandum on 'Debt restructuring by commercial banks'
March 1981	Poland asks to restructure its debt with Western creditors (official and private)
May	Agreement on an 8 billion dollar loan by the Saudi Arabian Monetary Authority to the IMF
November	Hungary and Poland apply for IMF membership: Hungary joins in May 1982, negotiations with Poland stopped after the December 1981 military coup
December	US prime rate hits 21.5 per cent

1982

14 January	Meeting in New York between de Larosière and the heads of 25 banks where he warns them against the risk of a major default by 'one or more of the larger' developing countries
17 February	Mexico floats the peso, 40 per cent fall in the following week
22 March	The Mexican government grants large wage increases as compensation for devaluation and inflation
April	Volcker attends a meeting of BIS governors, in Basel, and warns his colleagues that Mexico is 'skating on thin ice'
20 April	An orthodox economic program is launched by the Mexican Minister of Finance and Central Bank Governor
21 April	Default on 2.3 billion dollar foreign debt by the largest Mexican group, Alfa

April–June	Falklands War (Argentine assets in UK are frozen, access to US Exim loans closed)
30 April	The Fed grants an 800 million dollar overnight loan to Banco de Mexico to window-dress its end-of-month official reserves
8 May	Meeting between de Larosière and European bankers at Ditchley (UK), similar to the 14 January meeting in New York
Late June	Mexico launches a 2.5 billion dollar syndicated loan
30 June	The Fed grants a 200 million dollar overnight loan to Banco de Mexico
4 July	Miguel de la Madrid elected President of Mexico
8–9 July	OECD meeting on Mexican situation
16 July	The IMF's Board discusses the Mexican Article IV report
Mid-July	Mexico fails to launch a 100 million dollar syndicated loan and signals to the US authorities that it has lost access to the market
31 July	The Fed lends a 700 million dollar overnight loan to Banco de Mexico
2 August	Four-day IMF mission arrives in Mexico
12 August	Mexican authorities call the Fed, US Treasury and IMF and announce Mexico cannot pay the interest on its debt due on 13 August
13 August	Silva-Herzog, Mexican Minister of Finance, visits the IMF, the Fed and the US Treasury
15–28 August	Bridging loans provided by the US and the BIS (4.37 billion dollars)
16 August	Mexico declares a unilateral moratorium on capital repayment; an IMF mission arrives in Mexico City
18 August	First estimate of American banks' exposure to Latin American sovereign borrowers
20 August	First meetings between the Mexican team, led by Silva-Herzog, Finance Minister, and the commercial banks at the New York Fed; the Mexicans ask to reschedule the debt (i.e., without a write-off); agreement on the creation of an Advisory Committee, endorsement of the moratorium on capital repayment for 90 days beginning 23 August
1 September	President Portillo announces bank nationalizations and capital controls
4–7 September	Toronto IMF/World Bank meetings. A bank advisory committee is formally announced, led by Bill Rhodes
7 September	Argentina asks for a loan with the IMF, soon afterwards starts negotiations with the Fed and the BIS for a bridge loan, and with commercial banks on a debt restructuring
7 September	A brief episode of liquidity tightening in the US capital markets
14 September	Walter Wriston writes a column in the *New York Times* stating that governments don't go bankrupt
5 October	Alarming comments by Volcker at the Fed's FOMC meeting
10 November	Mexican Letter of Intent
15 November	First partially free elections in Brazil since 1964; immediately afterwards, an IMF loan, a US-led bridge loan and a debt restructuring are requested

16 November	Meeting at the New York Federal Reserve between de Larosière and the commercial banks that had lent to Mexico and Argentina; speech by Volcker in Boston announcing that US authority will follow a policy of 'regulatory forbearance'. A bank steering committee for Argentina is formed, chaired by Rhodes
17 November	Extension of the 90-day moratorium on capital repayments by Mexico to commercial banks
1 December	Miguel de la Madrid is inaugurated as President of Mexico
12 December	De Larosière sends a telex to G10 central bank governors asking for their support in raising new money
23 December	The IMF's Executive Board endorses the Mexican restructuring and new money loan
31 December	Agreement in principle on the Argentine new money loan

1983–1992

January 1983	Creation of the Institute of International Finance, Washington, DC
6 January	Brazilian authorities send a Letter of Intent
24 January	IMF Stand-By for Argentina is endorsed by the Executive Board
4 February	Volcker calls for the establishment of an international regime of bank supervision in the *Journal of Commerce*
24 February	Agreement in principle to increase IMF quotas; the US confirms its support in November
28 February	The Executive Board extends a Stand-By to Brazil
3 March	The new money loan by banks to Mexico is finalized, with the last signatures collected by 15 March
6 April	The Executive Board reviews the IMF's experience since August; three large staff memoranda. BIS governors discuss the debt crisis and the IMF strategy at their monthly meeting (7 April)
30 October	Election of Raul Alfonsin as Argentine President, inaugurated in December; end of the military regime
January 1984	Second Brazilian restructuring
9–13 January	First meeting of the Cartagena Group in Quito, a second meeting takes place in Cartagena on 22 June
2 March	Second Mexican program with the IMF agreed, without formal pre-commitment by the banks being asked
15 January 1985	First democratic presidential elections in Brazil
18 March	Final judgment in *Allied Bank* v. *Banco Credito Agricola*
June	Austral Plan in Brazil, first debt/equity swap program (Chile)
July	Peru limits debt service payment to 10 per cent of export earnings

August	Mexico signs first multi-year restructuring agreement
19 September	Mexico City earthquake
8 October	Baker Plan
16 January 1987	Michel Camdessus becomes Managing Director of the IMF; de Larosière becomes Governor of the Banque de France
February	Brazil declares moratorium on debt service, suspends negotiations till September; resumes interest payments in December
16–17 February	The IMF staff endorses the notion of a debt overhang and calls for substantial, permanent debt service reduction. The US censures the staff
19 May	Citibank announces 3 billion dollar loss reserves on loans to least developed countries
24 May	Op-ed by Henry Kissinger in *The Washington Post* calling for debt write-offs
1 June	Paul Volcker announces his resignation from the Federal Reserve Board; his successor, Alan Greenspan, is confirmed on 11 August
15 June	Private note by Gerry Corrigan (New York Fed Governor) to Alan Greenspan on ‘debt fatigue’
15 December	Mexico ‘Pacto’ economic program
19–21 June 1988	The US opposes the Miyazawa Plan at the G7 annual summit
15 July	12 countries agree to apply common risk-based capital adequacy ratios to commercial banks (Cooke ratio)
15 September	Nicholas Brady becomes Treasury Secretary
20 January 1989	Inauguration of President George H.W. Bush
10 March	Brady Plan
22–23 July	Agreement on the Mexican Brady agreement, at the US Treasury, in Washington; a detailed term sheet is signed in September, the debt exchange is executed in February 1990
5 January 1991	*The Economist* writes that the Brady Plan might be ‘beginning to work’

Introduction: the 1980s debt crisis in historical perspective

The sovereign debt crisis of the 1980s is a landmark in economic history, particularly in the history of financial disasters in the peripheries. Between 1982 and 1990, it engulfed more than 40 countries, primarily in Latin America but also in Africa, Asia and Eastern Europe. Here was more indeed than a series of mere local accidents, caused exclusively by policy errors here and there. This crisis had a systemic dimension, which revealed the deep flaws in the market for developing country loans that had emerged over the last ten years. Eventually, this market would have to be rebuilt on an entirely new financial, regulatory and policy basis. More generally, this whole episode came with, or it contributed to, a radical shift from post-war development policies, typically marked by substantial state intervention, protectionism and social corporatism, towards deregulation and open markets; say, the Washington Consensus. This crisis was both an incinerator of past policies and an incubator of the global turn.

The only comparable systemic episode in history is the 1931–1933 crisis, when tens of countries defaulted on their debt before gradually adopting a new economic rule-book, the one that would actually dominate till the 1980s. For sure, market collapse extended at that time to core countries, which were essentially unaffected after 1982.[1] But the more salient difference between the two episodes is about how the economic and payment crisis were addressed, and by whom. In the earlier case, debt service long remained intermittent at best and final settlements, up to the early 1950s, typically looked like ad hoc, case-by-case liquidation arrangements. Most developing countries then waited another two decades before (briefly) recovering access to private foreign capital.

Beyond, as we all know, was the unsettled international landscape of those years. In the early 1930s, the League of Nations was already on its way out, the Bank for International Settlements (BIS) stayed put, and the United States (US) withdrew from international economic affairs at the 1934 London Conference. On the private side, the representative committees of bondholders and the large investment banks which had dominated the debt market since the early nineteenth century had also lost their clout.

In the 1980s, on the other hand, American hegemony was still uncontested. The US could count altogether on the support of the other developed countries, on a powerful coalition of international banks and on a strong multilateral crisis

manager, the International Monetary Fund (IMF, 'the Fund'). And, if needed, it could also exercise direct, last-resort political power. The strong arm of the US government rarely remained at rest behind the back of Paul Volcker at the Federal Reserve, or Jim Baker or Nicholas Brady at the US Treasury. During the 1980s, the whole crisis thus remained under tight political control. A government with a serious debt problem on its hands soon learnt how to proceed, which doors to knock on, when to call the US Federal Reserve ('the Fed') for help and what type of agreement it could expect to sign with its creditor banks and the IMF. During those years, there was hardly a month, even a week, when some debts were not being renegotiated, here or there, under the same modus operandi.

Although comparisons are hard to come by, converging evidence suggests that, on a financial accounting basis, debtors were treated more harshly after 1982 than after 1931–1933 (and probably also since 2000).[2] But once a solution had been found, in 1989, most debtor countries returned immediately to capital markets: bigger carrots compensated for harder sticks, some may argue.

Still, a hegemon is not an almighty power, endowed with perfect foresight, and inevitable success. As any other political actor, it is fully exposed to errors and failures, as to its own misjudgement, to epistemic myopia and to capture. Its ultimate strength, probably, is more in its capacity to try again, even after it has failed. In our case, success in resolving the debt problem came at the third attempt, after years of tensions and dissent among Western policy elites. Economic and social costs were accordingly high (see Table I.1).

Table I.1 Long-term growth performance

	Latin America	East Asia	Europe	United States
GDP growth				
1976–1982	3.4	6.2	2.0	2.4
1982–1990	1.7	6.9	2.6	4.0
1990–1996	3.5	7.3	1.7	2.7
GDP per capita				
1976–1982	1.1	3.9	1.7	1.3
1982–1990	−0.3	5.0	2.3	3.0
1990–1996	1.8	5.6	1.3	1.4

Note: Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, Venezuela; East Asia: Honk Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand; Europe: Belgium, France, Italy, Germany, Greece, Netherlands, Spain, United Kingdom.
Source: Maddison database, non-weighted averages.

A first generation of rather muscular programs, in 1982–1983, generally delivered the expected macroeconomic adjustment (fiscal and current account imbalances). But, for reasons which economists have discussed at length, growth did not pick up, market access was not restored and no country started to 'grow out of their debt', i.e., achieve a gross domestic product (GDP) growing faster than debt. They thus had to go through a second cycle of restructuring and adjustment, under the umbrella of the so-called Baker Plan (1985), named after the then US Treasury Secretary, Jim Baker. Banks were invited to lend more and, rather than aiming mostly at macroeconomic imbalances, countries were asked to sign onto comprehensive programs of 'structural adjustment', meaning trade liberalization, domestic deregulation, privatization and labour market flexibility: in other words, the Washington Consensus (Williamson, 1990). Yet again, this second approach did not open a way out of the crisis and debtor countries soon entered the darkest chapter of this story. In the following years, many among them faced considerable economic instability at the domestic level, often brutal inflation and growing social inequality. The frail democracies that had recently emerged across Latin America were increasingly threatened.[3]

Success indeed came with the 1989 Brady Plan, after the US policy establishment had concluded (at last) that debt write-offs were a necessary step if Latin America were not to drift sideways, both economically and politically. As important, the old, restructured bank loans were exchanged against tradable bonds, the so-called 'Brady bonds', which became instrumental in reopening access to financial markets. Very soon, capital flowed again into these economies, helped them to stabilize their overall position and pump-primed growth. And after a very short while, countries opened up their capital accounts and became fully integrated into the new, fast-growing, global capital markets.

The magnitude of this global transition is hard to underestimate, though. Contrary to the common view, this was not an irresistible, deterministic movement – say, a roller-coaster. When discussing the 1980s, too many authors just speed through a limited number of well-known signposts before reaching what they see as the only truly significant events of those years: globalization, neoliberalism and the Washington Consensus. Before that, you would only have 'the lost decade', as they say, suggesting that not much of interest would have happened. Bizarrely, this crisis is often defined more by what came next than by what happened then.

While the outcome of the Brady Plan certainly satisfied the best hopes of its architects, it is also fair to say that they had not foreseen how fast and deep the coming economic changes would be. There was an expectation in 1989 that the disintermediated capital markets which had developed in the US and Britain since the late 1970s could be instrumental in solving the crisis. But in 1989 the overall perspective of debt negotiators was very much backward-looking and

technical. Their aim was at last to bring this crisis to an end, but one would be challenged to find in the footnotes of the Brady Plan a grand plan for a full reordering of the capitalist world. This crisis was an incubator of the coming, globalizing world, but this was not by design. Its differences and similarities with previous debt crisis episodes, the rules that governed the restructurings, how the move towards a market-based response came about: all these key questions have most often been ignored or answered only by way of clichés and shortcuts.

WRITING ANEW THE HISTORY OF THE 1980s DEBT CRISIS

This book proposes a new economic and political history of the debt crisis of the 1980s. It adds substantial new empirical material, drawn from interviews and archives, and discusses the economics of the debt problem. It looks of course at the core conflict beyond sovereign debtors and their creditors and at its social effects. But it also analyses how the debts were actually renegotiated, hence the relations between lending banks, or between them and their national regulators, and between the IMF and its member states. This sheds new light on the deep conflicts that marked those years, inside the private financial sector and more generally within the Western policy and financial elites. Behind closed doors, or in confidential memos, the strategy adopted by the Fed and the Fund in 1982 was constantly, harshly criticized from the top tier of Western policymakers. Hegemonic power is not as overwhelming as often assumed.

Beyond this, the aim of the book is to better 'historicize' this most remarkable episode. It thus looks backwards from the post-war reconstruction of the international economy and forwards to the post-1990 world. But the discussion is also about the place of the 1980s in the long-run history of sovereign debts, their recurring crises and the way policymakers have tried over time to restore international market order and relaunch capital flows. This episode thus resonates with the 1930s, but also with the first multilateral experience in this matter, at the League of Nations during the 1920s (Marcus, 2018), or indeed with the English practice, during the long nineteenth century (Flandreau and Florès, 2012; Flandreau, 2022).

From this perspective, what is particularly striking in the present case is that no rule-book was available in 1982 for addressing sovereign debts defaults. In lived experience, neither the American government, nor the IMF or the international banks had been confronted with anything comparable. The memory of previous experiences of sovereign debt restructuring, either before 1914 or during the interwar period, was essentially lost. Which mechanisms may support negotiations and decision-making between dozens of sovereign debtors and hundreds of lending banks? Can their commitments be made

credible? And how can a degree of fairness, or mutual acceptability, be hopefully built into these agreements on debt and economic policy? When Mexico declared itself unable to continue normal debt payments, in August 1982, no international treaty, no accepted guidelines could be drawn upon. Even the syndicated bank loans that now had to be renegotiated did not contain a moderately consistent set of contractual clauses which could have guided these operations. And as for the IMF, it had *not* received a mandate to address sovereign debt problems at the Bretton Woods conference, in July 1994, where it was founded and its statutes adopted. For decades, in fact, sovereign debts had remained entirely absent from the international agenda while the Fund spent its early life very far away from financial markets and their private operators. Well into the 1970s it remained on this count a creature of New Dealers.

Over the course of that decade, however, the IMF quietly entered this terrain and built up a first body of experience on the back of a number of low-key debt restructurings, with the likes of Jamaica, Nicaragua and Zaire. The IMF internal archives show how it explored the underlying policy dilemma and how this experience shaped, in 1982, its three-way bargains with crisis countries and international banks. The precedents that were set in the case of Mexico then supported close to 100 debt agreements until 1989, with Argentina, Brazil, the Philippines, Poland and many others.

Political scientists will see here a paradigmatic example of how an international organization innovates below the radar and expands its turf in the interstices of the agency relation with member states. The pattern is well known and has been well researched (Martin, 2002; Hawkins et al., 2006). Still, the present case does not easily enter this category, because of the discrete, highly consequential character of this extension of the Fund's mandate: opening up its classic bilateral bargain with crisis countries to their private commercial banks asked that the latter be given a (de facto) right of veto over the IMF loans. This was not an incremental innovation, but a spectacular suspension of a core, statutory rule. This redefined the whole decision-making process within this organization and, somewhat paradoxically, it sanctioned at the same time a major policy innovation: for the first and only time in history, sovereign debts ended up being restructured entirely at the multilateral level.

From the 1820s and for a century, then again since the 1990s, debts were (and are being) restructured in venues much closer to the financial centres where they had been issued, primarily London and New York. Hence, these operations were (are) shaped much more directly by local market institutions and financial professions, their political economy and, after 1990, by the local courts and local contract law. This was well illustrated by the long saga of the Argentine debt renegotiations, between 2001 and 2015, which was strongly marked by the successive decisions of the New York courts and even of the US Supreme Court (Weidemaier, 2013; Sgard, 2019a).

Yet, in the record of the 1980s crisis there is little trace of national judiciaries of the respective contract laws or even of the exact writing of the initial debt contracts. Neither shall we see large market operators, like the London Stock Exchange, playing a pivotal role when debts were restructured as was the case during the long nineteenth century (Flandreau, 2013, 2022). After 1982, all proceedings took place on an ad hoc extra-territorial platform, entirely governed by rules which the Fund had designed on its own. Private commercial banks were then invited up, with all their distressed debts, which were collectively restructured and then returned, after amendments, into the banks' balance sheets, in their home jurisdiction. For this reason, the 1980s crisis episode does not only belong to financial history or to the sociology of international organizations. It also marks a *high, if problematic point in the history of classic post-war multilateralism*.

At that time, however, the IMF did not attempt to lay down the foundations of a world financial government, neither did it establish a 'bankruptcy court for sovereign debtors', as it would propose at the turn of the 2000s (Krueger, 2002). On the contrary, the unique approach of the 1980s was marked by considerable informality, understatements and silent assumptions. Not a single amendment to the IMF Articles of Agreement (its constitution) was added to support its interventions in debt matters. No international convention, no G7 communiqué, no official statement formalized the goings-on. Even the rules for negotiation and decision-making were never fully written down and officially endorsed by the powers that be: not a single moderately detailed roadmap for debt renegotiation, no basic DIY users' guide, was found while researching this book. Beyond a few well-known markers, the actual procedure thus had to be inferred from interviews and from paper archives, such as the exchange of correspondence between countries and the IMF staff, the minutes of its Executive Board or country files kept by commercial banks. Hence, this regime was observably based on rules, which were known to all participants: they shaped expectations and were de facto adhered to. But these rules could not be formalized and fully legitimized. This was a superior example of multilateral governance, though largely by stealth.

Ultimately, the reason for this indeterminacy is that the Fund has never been equipped with the top-down authority to single-handedly suspend the execution of debt contracts and bind all creditors to a given accord, possibly against the will of minority dissenters. Having such authority would have most clearly signalled its transformation into a supra-national bankruptcy court, which would have received the full jurisdiction over the debt contracts. But when shepherding debtors and creditors, the IMF never tried to mimic a court or an arbitration panel, neither did it pretend to sit under an oak tree and judge in equity. Throughout the decade, the IMF acted 'between' the parties as a crisis lender, an economic expert and a strong-armed, muscular broker, endowed

with considerable resources and discretion. Governments of debtor countries were openly pressured when their policies diverged from commitments and recalcitrant banks were arm-twisted if they refused to adhere to a given country program. Tens of national central banks and financial regulators in Western creditor countries were often invited to do this unpleasant job. They certainly did not enjoy it, and let it be known. And, at the turn of the 1990s, after a solution to the crisis had been found at last, the whole approach to sovereign debt restructuring was shelved almost overnight and its main lessons forgotten.

As it discusses the rules that governed crisis management, this book draws therefore on a rather formalistic acceptance of sovereignty. On the one hand is the sovereign's domestic, constitutive relationship to contracts, private rights, markets and more generally to civil societies. This is illustrated in our case by the unique authority of the bankruptcy judge who intervenes in private contracts and can coerce minority creditors. No private institution can do that, which is why bankruptcy procedures have never been privatized or sub-contracted. At the international level, however, this relation between the public and the private does not work in the same way, if at all. Sovereignty presents here a more horizontal dimension that revolves around principles of mutual recognition between states that see each other as sovereign; they may then cooperate on that basis, for instance in a multilateral organization like the IMF, which, in turn, may intervene in a given member country to try to help it sort out its problems.

By construction, the whole discussion over sovereign debts inevitably revolves around the unstable, constantly renegotiated tension between their contractual character, which anchors them in the jurisdictional and political environment of the creditor countries, and the sovereign character of the debtor, which remains a party to the state-based, international order of the day. On this count, the 1980s regime is most remarkable for having pushed the whole construction further than any time before in the direction of sovereignty-based rules, which were formulated and enforced by the states' own creature, the IMF. This followed the early steps towards a more active involvement of Western governments, in the late nineteenth century, then during the 1920s, with the first multilateral experiments.

THE LITERATURE

Our discussion nears at this point the recent research trends in the history of international law. For about two decades, scholars have intensively explored how the political ideas that shaped this highly conceptual legal field have evolved over time (Koskenniemi, 2002). In particular, they have discussed how the concept of sovereignty itself has changed since early-modern times, or since the 1815 Treaty of Vienna, and how these successive conceptions

have framed the competition between great powers, or their relations to non-Western countries (Anghie, 2005; Koskenniemi et al., 2017). In turn, many innovative international statutes, like protectorates or trusteeships, were often influenced by issues of sovereign debts. This new brand of legal history may thus be read with great benefit in parallel with, for instance, the volume edited by Juan Florès and Pierre Pénet (2021) on the debts of colonies and former colonies, or with Marcus (2018) on the League loan to Austria, or, also, with Lienau (2014) on the evolving conceptions of sovereignty and political legitimacy that has underpinned the discourse on sovereign debt since WWII. While the present book is not about legal or political theory, it will never entirely lose sight of this further horizon.

At the same time, this book comes against a background of marked academic underinvestment in this specific crisis. Since the early 1990s, this episode has remained in a kind of time warp, or historiographic wasteland. Historians have not fully embraced it, and have spent much more time studying the ups and downs of the nineteenth-century sovereign debt markets, or the various experiments of the 1920s. Similarly, today's practitioners and debt watchers most often consider the 1980s episode as *passé*, hence of minor significance. Most economists and lawyers who worked on the more recent cases of Argentina (2001–2015, 2019–2020) or Greece (2009–2015) typically ignored how comparable problems were dealt with in the 1980s.[4]

There are of course important contributions on this episode, like *The Silent Revolution*, published in 2001 by the Fund in-house historian James Boughton: it is still the main reference on the topic. More recently, Carmen Reinhart, Christoph Trebesch and their colleagues have opened new perspectives by building long-run databases on debt defaults, sovereign restructurings and their outcomes.[5] Their time series are a key instrument when trying to better 'historicize' the 1980s, although these authors do not add much to the political and legal economy of our case.[6] Carmen Reinhart and Kenneth Rogoff in *This Time Is Different* (2009) also have two important pages on the effects of the Brady Plan, though the same caveat still applies, on the whole.

With a more narrative and qualitative perspective, Harold James (1996), Ethan Kapstein (1994) and Eric Helleiner (1994) cover a lot of ground on the reopening and expansion of international capital markets since Bretton Woods till the 1990s. But closer to the action, two old contributions by Charles Lipson still stand out, respectively on the pre-crisis period and its early phase (Lipson, 1979, 1985a). They are among the very few to have offered at an early hour an informed, structured analysis of the conflicts of interest among banks and how they affected the overall restructuring operations. Miles Kahler (1986) underlines the interbank dimension as well, though with less empirical evidence than Lipson, hence less incisiveness.

Still, most authors working in this vein tend to question the determinants of the policymaking process at a rather broad or aggregate level. Like many others, they look at rules and institutions with an ex ante view, at the moment when policies are discussed, lobbied for and adopted, hence when they start shaping the incentives and calculations of market participants. While the present book draws on this literature, it adopts on the whole a more microlevel focus on actual conflicts and crises, hence when the debtor is on the verge of defaulting, when banks start to panic and when they all look desperately for a last-resort crisis manager.

It is only ex post, when rules and promises have been broken, that individual agents meet most officials: central bankers and financial regulators, judges, or an IMF mission team. This is the moment when procedures come to the fore, and also when power positions, competences and access to information weigh most heavily on outcomes. Hence the sociology of these officials will also have an influence: how and where they have been educated, which epistemic and political assumptions they may share, which career incentives they respond to. And, critically, crises are the privileged moment when policy innovation, legal craftsmanship, experimentation and working precedents emerge, typically in a context of high indeterminacy. In this sense, the present book explicitly follows Max Weber's old dictum whereby 'Economic situations do not automatically give birth to new legal forms; they merely provide the opportunity for the actual spread of a legal technique if it is invented' (Weber, 1921/1978, II, p. 687).

On the macroeconomic side of the debate, William Cline's *International Debt Reexamined* (1993) and Michael Dooley's 'Retrospective' (1994) offer strong background material and analytical inputs, while the series of articles by Jeffrey Sachs (1981, 1986, 1988) and Carlos Diaz-Alejandro (1984, 1985) remain must-reads on the crisis. But they concentrate primarily on adjustment policies, balance of payments and debt dynamics. These issues were of course at the core of the debt problem, but they are rather seen here as parametric: they framed the debate and defined the problems to be addressed. The only economic debate that is visited in some detail centres on the concept of a 'debt overhang', which became after 1987 the main battleground on which the principle of debt write-offs was fought over (Sachs, 1986; Krugman, 1988; Bulow and Rogoff, 1989). Politically, the link to the Brady Plan was quite direct, although, as we will see, the overhang argument was not clearly confirmed after debts had been written off.

Still, this book contradicts much more directly the mainstream argument from those years, which says that what supports the sovereign debt market is the debtor's concern for its reputation as a faithful borrower (Eaton and Gersowitz, 1981; Guttentag and Herring, 1983; Eaton et al., 1986). Rather than being based on any notion of solvency, as in the case of private businesses,

debt service would respond to the balance between the temptation by governments to stop payments when difficulties mount and the long-term benefits of maintaining easy and cheap access to international capital. The sovereign's good reputation is thus envisaged as a kind of capital, on the basis of which it may occasionally raise hard cash while having every incentive to service in full. If it fails, the fully fledged model expects that the market will exercise an anonymous, diffuse, if brutal sanction, by way of a higher risk premium or straightforward rationing.

The problem with the classic reputational argument is in its being ultimately rooted in an unrealistic, ahistorical epistemology where any remotely legal or institutional consideration has little place, unless it is essentially repressive. Many authors working along this line conclude indeed that any institution that helps distressed sovereign countries renegotiate their debt, especially if they benefit from some debt relief, is doomed to have large negative consequences, possibly leading to market decline (Shleifer, 2003). If it is to recover and expand, the argument continues, then debtor countries should be subjected to the most drastic threats possible. Rather than endorsing the classic Westphalian argument that sovereign states *cannot* submit to any international third-party dispute resolver (like a court), one may soon conclude that there *should not* be any such institution. Only threats and retaliations work with hard-headed brutal sovereigns. Otherwise, moral hazard will inevitably submerge any attempt to establish a viable debt market.

This view is well illustrated for instance by Michael Tomz in *Reputation and International Cooperation*, which has three chapters on sovereign debts and their enforcement: they discuss successively gunboats, trade sanctions and collective retaliation (Tomz, 2007, chs 6–8). But look also at *Why Not Default?* by Jerome Roos, who also discusses the 1980s crisis in some detail, though with a wholly different approach (Roos, 2019, chs 8–11). He thus starts with a broad, muscular macropolitical perspective and argues that 'the structural power of finance' allows it to control and constrain debtor countries against their interests. The key instruments, in his view, are the capacity to withdraw short-term trade finance and cause havoc at the domestic level, followed by IMF conditionality and, lastly, by the 'bridging role' of domestic elites whose interests are aligned with those of 'international finance'.

Significantly, Tomz and Roos both illustrate how a highly deterministic, macroparadigm makes rules and procedures, though also policy innovations and failures, ultimately intangible. In particular, it is difficult with this epistemology to identify the effects of the law, including soft law and privately ordered law. Too often, they end up as token illustrations of the effects of bigger anonymous factors, like market forces, class interests or imperialism. A fully opposite perspective is adopted here: one should look at the contractual disputes themselves, the fora where the parties meet, the procedures they

follow and how they try to make their commitments credible. This is where crises are actually addressed, where power is visibly exercised, where shifting interests can be observed and where the eventual outcomes are ultimately shaped.

THREE ASSUMPTIONS ON SOVEREIGN DEBTS IN GENERAL

The coming discussion is based on three broad propositions regarding the economy of sovereign debts. The first one is that while moral hazard is a serious concern each time some debt has to be paid, it is not by far the source of all sovereign debt crises. Up to a point, these are inevitable, recurring events. Even under the starkest reputational constraints, there is no chance sovereigns may always be able to endogenize any exogenous shock, political or economic, domestic or external; even in the best circumstances, they will not always absorb all the consequences of their own inevitable policy errors. Besides, defaults and debt restructurings are as such extremely costly for any country: the suggestion that helping them along the road back to the market would amount to a free lunch does not account for the historical experience (Borensztein and Panizza, 2008; Cruces and Trebesch, 2013). Latin America in the 1980s is no exception.

The second assumption is that after a country has defaulted, it keeps a powerful, direct interest in returning to capital markets. Countries are not 'forced' to return by an outside, overwhelming power, like 'global capitalism' or 'the market'. Governments in the throes of a severe debt crisis will certainly consider, however briefly, the possibility of unilateral measures, or some form of repudiation. That's in the nature of the situation: during the 1980s, a number of countries tried to push the limits of acceptable behaviour and threatened more or less explicitly to exit the game altogether. But they never took the plunge, simply because governments don't know what they would do the day after, and even the year after: how they would finance their economy, start growing again or adjust their foreign trade. If there was a time when such a move made sense, it was in the 1930s, when capital markets had essentially disappeared; but *not a single country* repudiated at that time. Most of them even made substantial efforts to maintain some payments before coming to the negotiation table (De la Villa Aleman, 2022).

Thirdly, creditors will try to exploit to their maximum advantage this strong, well-founded interest of debtors in returning to the market. They will thus try to extract from them the largest possible concessions, typically by relying on some gate-keeping position. Broader political asymmetries between core and peripheral countries certainly weigh on such a context, as they certainly did during the 1980s. But again, if reaccessing markets were a trivial objective,

creditors would not have so much power and the IMF would probably be out of business.

What this says is that when debts are unpaid, a large strategic space opens up between debtors and creditors, which must be bridged or governed. Meeting points, coordinating agents, decision rules and commitment mechanisms have to be assembled so as to open up reasonably safe, effective pathways towards settlements. This is where attention to rules and procedures, or to guidelines and accepted customs, comes in. To a large extent, the history of sovereign debt crises presents a map of how, over time, the parties have found the terms and the place for a negotiation, before hopefully finding a way out of the crisis. These legal pathways take the form of statutory procedures at the domestic level, i.e., bankruptcy. At the international level, they are inevitably more fluid, contested and contingent upon the international political order of the day, which is why they regularly have to be reinvented, like in the early 1980s, and why fairness, also, is so hard to defend along the road.

National laws, interstate agreements, contracts, ad hoc rules or accepted procedures guide collective action. They structure expectations, coordinate individual strategies, signal divergent behaviours and can even trigger retaliation, or the opening of new negotiations. They may also incite some players to change their course of action and design an alternative solution to the problem at hand. This diverse array of rules helps us rediscover the routes taken when parties tried to save what they could from the disaster or, more bravely, when they tried to lead debtors and creditors towards a safe harbour.

In the case of the 1980s, the problem is that the legal literature is entirely dichotomous, hence confusing. On the one hand are classic international lawyers, of the thoroughly academic variety, who fought without great success to account for how debt contracts were restructured. Most of them, from Georges R. Delaume (1989) to Dominique Carreau and Malcolm Nathan Shaw (1995), eventually conceded defeat and concluded that the process did not have any tangible, legal character. On the other hand, are practising lawyers, who were typically involved in the restructurings as counsel, either for countries or banks. Lee Buchheit is here the most influential figure, who published a long series of comments and analytical papers on the evolving crisis in the late 1980s (see Buchheit, 1986, 1988; Buchheit and Reisner, 1988). These publications should be read in parallel with the seminal articles by Joseph Gold, the founder of the Fund's legal doctrine, which is so curiously ignored by nearly all IMF and debt scholars (Gold, 1963, 1967, 1972).[8] Brought together, these two authors take us a long way towards understanding how the unique-yet-contested multilateral approach to debt restructuring worked after 1982.

That said, an interesting epistemic and sociological evolution emerged around the turn of the present century. Whereas in the 1980s the whole public conversation on sovereign debts was entirely dominated by economists,

lawyers have now entered this open terrain and economists have started engaging with them seriously. Together, they now tend to form a self-standing epistemic and professional community: conferences and edited volumes typically mobilize representatives from both groups, a good example being here the volume edited by Ali Abbas et al. (2020). IMF reports and research papers now include a strong legal dimension, which was not in the least present during the 1980s. The whole discussion has thus become more amenable to the view that contracts are always operative within a complex institutional and political environment, even in the case of sovereign debts.

The present book is grounded in this new, transdisciplinary epistemic terrain, where the politics of sovereignty meet the interests of financiers and the craftsmanship of lawyers.

ORAL HISTORIES

As it tries to fulfil these promises, this book first relies on extensive testimonies from the most influential actors of the crisis. Most of them have already written books, and they have had many occasions to talk about their experiences during those years. But there has been no systematic attempt so far to discuss with all of them, sometimes for several hours, their actions during the 1980s and their understanding of how the crisis unfolded. Many emails were also exchanged in order to verify this or that point, or to document how a given event took place.

Paul Volcker, first, was interviewed in New York shortly before his death, in December 2019. He played a major, if sometimes neglected, role during the debt crisis, from August 1982 till the end of his chairmanship of the US Federal Reserve (1979–1987). At a time when the US Treasury was rather in the background regarding the debt strategy, Volcker was clearly the prominent American voice in the process. As he later wrote, in those years his time was absorbed much more with the Latin American debt crisis than it was with monetary policy per se. (Volcker, 2008, p.133).

In 2019, however, the Federal Reserve Board in Washington made available online a long series of interviews with its former top officials, which had been conducted between 2008 and 2012. The 345 pages of discussion with Volcker make great reading (Volcker, 2008). The Federal Reserve Board kindly allowed that the 20 pages on the 1980s debt crisis be included in the present book. It is warmly thanked for this. These pages richly complement Volcker's own memoirs, which were published shortly before his death, as well as several books on him and by him (Volcker and Gyothen, 1992; Volcker, 2018).

Jacques de Larosière was Managing Director of the IMF between 1978 and 1987 after a fast-tracked career at the French Treasury, a department which he led for four years starting in 1974. At that time, and like Volcker,

he had a direct part in the unwinding of the Bretton Woods exchange rate arrangement. In August 1982, when Mexico declared itself unable to serve its debt, he immediately became the ‘orchestra conductor’ of crisis management, in Volcker’s own words, and then led the Fund through the crisis in a very hands-on way. De Larosière is warmly thanked for his unique perspective and insights on the debt crisis and also for offering access to the other main figures of the 1980s crisis. His personal trust was decisive here and is gratefully acknowledged.

Guillermo Ortiz had led the economic research department of the Banco de México since 1977 when the crisis hit the country; he was then very closely associated with the successive debt negotiations and stabilization programs. From 1984 until 1988 he then represented Mexico and a number of other Latin American countries as Executive Director on the IMF Executive Board. A continuing, close participant in the overall debt policy debate, he defended from 1987 the principle of substantial debt write-offs, against vigorous American opposition.

José Ángel Gurría is also a top representative of the small group of Mexican technocrats and politicians who emerged early on in the 1980s and steered the country through the debt crisis and structural reforms. He was directly associated with the late 1982 negotiation, and then became the lead negotiator on successive restructurings till the Mexican Brady agreement of 1989, which he largely inspired.

Bill Rhodes was the bankers’ man in this story from 1982 until the Brady Plan. As Citibank’s lead negotiator on debt after August 1982, he headed the commercial banks’ Steering Committees, or ‘London Club’ on Mexico and, soon after, on Argentina, Brazil, Peru and Uruguay. He was thus in continuous (and often difficult) negotiations with tens of governments and central bankers, the US Treasury and, critically, with de Larosière and Volcker and their respective successors, Michel Camdessus and Alan Greenspan.

Charles Dallara was the main ‘Treasury man’ in the debt crisis with a two-track career: he held a series of high-level positions in the Reagan and Bush administrations, leading to Assistant Secretary of the Treasury for International Affairs (1988–1989). At the same time, between 1982 and 1989, he was Alternate Executive Director (1982–1983), then Executive Director (1984–1989) for the US at the IMF Board, a position which is traditionally seen as the ‘the second most important job’ in the organization, after the Managing Director. The centrality of his position was particularly strong in later years when, as one of the main architects of the Brady Plan, he was also in charge of coordinating with the Fund.

These interviews have been reviewed and endorsed by the interlocutors, so that they can be read as personal testimonies, hence primary sources, which will be useful for future researchers as well. On the other hand, none of these

personalities had a hand in the writing of the first sections of this book, where the character is therefore entirely and exclusively academic. The views that are defended here may or may not be shared by the interviewees, whether regarding analytical issues or matters of judgment.

This book also benefited from important exchanges with other actors and close witnesses of the debt crisis, particularly Richard Aldrich, Lee Buchheit, Michel Camdessus, Terrence Checki, Richard Erb, Daniel Heyman, Bertrand Ledoux, Luis Machinea, Daniel Marx, Martin Murtfeld, Jeffrey Sachs, Ted Truman and Mark Walker. They should all be warmly thanked, and all remaining deficiencies remain of course mine. They are joined, in the academic sphere, by Sebastian Alvarez, Laura de la Villa Aleman, Nicolas Delalande, Marc Flandreau, Stéphane Guibaud, Mitu Gulati, Benjamin Lemoine, Grégoire Mallard, Yasuyuki Sawada, Catherine Schenk and Cornelia Woll. The diligence of the staff of the IMF archives should also be acknowledged, together with that of Madeleine Arenivar, who edited the English text with her usual attention and patience. Lastly, I want to warmly thank the Scientific Advisory Board of Sciences Po for its financial support.

TESTIMONIES AND MEMORY

These testimonies were made, some 30 to 40 years after the fact: this lapse of time inevitably weighed on what was said and how those words could be interpreted. Even the strongest memory may fail and memory may evolve. It has a life of its own, closely intertwined with the long lives of those who were there at the time, and who try today to share with us what they saw, what they tried to do and how they understood what happened next. The challenge therefore is not so much one of honesty, though it counts. Almost any statement of fact can be checked and any judgment opened to scrutiny: that's the researcher's job, which may take the form of another email or a nuance of uncertainty at the time of writing. Still, the whole episode belongs to history. The track is cold, the politics of the crisis are no longer present and what remains is very much of academic interest.

The challenge, in fact, is first about perspective. This book looks at the 1980s from the 'commanding heights' of the international economy: the IMF, the governments of debtor countries, the Fed, the G7 ministries of finance and the large commercial banks. Talking with the former heads of these institutions does not imply, however, that this book is about the great generals and the epoch-making battles they fought. For sure, a number of institutional and policy leaders conceived the strategy and led from the front, which is why it was so important to listen to their voices. At the same time, they were fully part of an international political economy which constrained their choices. At the IMF or in national public administrations, leaders are accountable to

superior political authorities, ultimately to electors, but they are also selected out of a more diffuse college of peers, say the national or international policy community, which passes judgment on their action. But they should also make sure that their own staff adheres to their policy course and contributes in fact to its definition. In the IMF in particular, the staff is typically the first to discuss, validate and formalize the initiatives that come from the top.

Still, someone who spent decades in the higher tiers of international policy-making does not have the same worldview as a former Argentine minister who struggled for one or two years with an economy in the full chaos of hyperinflation. Beyond are the ordinary people whose voices, by choice, have not been recorded here, though they were just as much part of this history. Workers, small entrepreneurs, elected officials, writers, pensioners, activists, even social scientists: there is no question that the collective memory of the 1980s in Latin America is very present among them. For better or worse, those years are still seen by most as the main bifurcation in the economic and political life of their countries since the 1940s.

Yet, on top of these interviews, transcripts were also discovered in the IMF archives of a long series of free-wheeling discussions on *The Beginnings of IMF Stand-Bys in the 1950s and 1960s* (Thorston, 1994). Here is in fact an oral history of the re-invention of the Fund, during the 1950s, as a crisis manager, hence, potentially, as a manager of sovereign debt crisis – very far away from the mandate it had received at Bretton Woods. Between 1989 and 1991, some 20 IMF old hands – many of whom had been there since the 1940s – took part in this project, which was conducted by a retired IMF official, Philip Thorston, and 'a bunch of guys figuring that something like this ought to be done' (1994, 2(1), p. 56). Although the project remained informal and did not end up in any publication, it left beyond some 400 pages of unedited text. They have thankfully been kept in the IMF Archives and are now available on their website.[9]

To be sure, tens of pages in the *Beginnings* veer towards gossip and good ol' jokes shared at the veterans' country club house.[10] But a narrative also emerges of how the strategic transaction between an IMF loan and policy commitments had been invented and developed, by way of trial and error. Max Weber's word about the 'invention of legal forms' applies here. As important, this story is told by former field officers in La Paz or Asunción, as well as by IMF grandees like Gold or Jacques Polak, the founder of the economic doctrine of the IMF. Much is also conveyed, for instance, by David Finch, an ultimate IMF insider during those decades, and by the main American voices from those times, for example Frank Southard, Irving Friedman and Al Costanzo.

Yet, the *Beginnings* is also a key source when exploring the IMF response to the 1980s crisis. Its now well-tested vehicle for conditional lending, the so-called Stand-By Arrangement (SBA, or 'Stand-By'), was then opened to

the representatives of commercial banks. This transformed it into a novel, rule-based, dispute-resolution vehicle which would remain at the very centre of the 1980s regime for debt restructuring. This way, the capitalized experience of the previous decades was mobilized and redeployed in order to address the new debt problems. A detour through the 1950s, hence also through the impasses of the Bretton Woods conference, is needed if we are to fully account for the experience of the 1980s.

PAPER ARCHIVES

Lastly, this book is also based on substantial bodies of written archives. Archival work and oral history thus complement each other in a kind of cross-interrogation, whose object is not to extract a confession or uproot the ultimate truth. Progress, on this count, is essentially incremental and additive and should eventually deliver a reasonably well-founded, consistent account of what happened and why. The test is whether this analytical narrative holds water; in other words, whether it is strong enough to shift the burden of proof to the critics.

The first step here was to explore the mass of written archives which are kept at the IMF. They detail what was said at hundreds of meetings with government officials and discuss monthly fiscal or monetary figures from this or that country; but they also convey hope and exasperation and, quite often, explicit political judgments. The Managing Directors' own papers also add light on both the macroeconomics and the micropolitics of the debt strategy, and occasionally on their personal contact with bankers or politicians.

Two classes of IMF documents stand out. First are the staff memos, papers and reports, addressed to either the Managing Director or the Executive Board, which reviewed at regular intervals the overall debt strategy or given policy issues, like the secondary debt market or bank supervision. Trends and turning points, the evolving perception of the crisis and emerging strategic options can best be spotted here. The 1987 annual debt review, for instance, clearly signalled that serious pressures were mounting on the whole approach to the crisis (IMF, 1987a).

The other main internal source are the minutes of the Fund's Executive Board meetings which, in those years, were never intended to go public, with the consequence that they are much richer than today's minutes. We can thus read, for instance, how, in December 1982 and March 1983, the representatives of member states congratulated the staff and Managing Director for their handling of the recent Mexican crisis (IMF, 1982h, 1983e). They solemnly endorsed at that moment a strategy on which they had had rather little say. Given the many grumblings and tensions that would endure for years, this signal had a long political resonance.

Beyond the Fund's paper trail are the archives of the central banks and national treasuries that were directly party to the policy process, like the New York Fed. Sebastian Alvarez was most helpful in providing access to this source and should be warmly thanked here for his generosity. The Federal Reserve Board in Washington, on the other hand, proved difficult to approach and the US Federal Archives are famously hard to navigate. The files of the Bank of England and the United Kingdom (UK) Treasury are both important and rich, especially over the late 1970s and the early years of the crisis. This significance reflects the international position of the City of London, but also the very proactive position taken at the time on the debt problem, in particular by Gordon Richardson, Governor between 1973 and 1983. One may thus read for example a 1980 report dubbed the 'Apocalypse Now' report on the possibility and risks of a large sovereign default in the near future (Bank of England, 1980). No other institution was found that conducted this type of exercise at that time.

By comparison, the papers of the Banque de France and the French Treasury are less central on the whole, though they do offer insights on international policy debates as well as a direct link to the Paris Club, where official bilateral debts are restructured (hence from government agencies, like aid agencies or export–import banks, to debtor governments). The Banque de France is also a fine place to access many internal reports of the BIS, in Basel, whose archives are less easy to access, though it played at the time an important, if discrete, role. Governors of the main central banks meet there every month and share information, insights and opinions. Accounts of these meetings are must-reads.

Last are the commercial banks themselves, like Lloyds Bank in particular, whose chairman, Jeremy Morse (1977–1993), was a strong voice during the whole debt crisis and was seen at one point as a potential contender for the top job at the Fund. The bank has kept excellent archives on the whole period, including, for instance, on the long negotiation cycles with Brazil and Argentina.[11] They reveal the fine grain of negotiations and power relationships and may focus the attention on a given player, or relation between players, which otherwise would have been missed. That said, and given the number of institutions involved, exploration in this direction was obviously far from comprehensive, and valuable resources might well have been missed. Even more problematically, the archives of debtor countries have not been searched. They remain more generally an unexplored continent, with some exceptions like Alvarez (2019) on the Mexican case.

CHAPTERS IN THIS BOOK

Chapter 1 analyses the genealogy of the IMF practice of conditional lending since the 1940s. It starts from the failure at Bretton Woods to formalize this highly specific transaction between a multilateral loan and binding policy commitments. It then describes how the breakthrough came about only in the 1950s, specifically with a small series of programs with Bolivia and Paraguay, between 1956 and 1958. Chapter 2 then tells how the Fund capitalized on this know-how and gradually redeployed conditional lending during the 1970s as an instrument to help restructure sovereign debts, hence with commercial banks increasingly on board. Reinvention and experimentation are again the issue. Chapter 3 presents a detailed analysis of how, on that basis, the Mexican quasi-default of August 1982 was addressed; this strategic response established a series of precedents on which all restructurings of bank debts until 1989 were based. This episode has already been told many times, with most authors drawing largely on Joseph Kraft's *Mexican Rescue* (1984). But a number of empirical elements are added here, which underline in particular the acute problems of collective action that shaped the eventual solution.

Chapter 4 analyses in a more abstract, synchronic perspective this set of rules and how they guided a total of 81 restructurings of commercial debts till 1989 (98 including the Brady settlements). Additionally came 143 accords with official, bilateral lenders, like aid agencies or export-import banks: some of these so-called 'Paris-Club' agreements were fully tied to parallel deals with the banks, as we'll see. Other, stand-alone deals, typically of a smaller relative size, often concerned Sub-Saharan African countries, with little or no access to the private loan market. This latter category is not directly discussed in this book. Of high interest, though with a more technical dimension, are also the effects of accounting and supervisory frameworks in creditor countries and how they evolved over the years. This dimension is hardly present in the existing literature. Chapter 5 explores in turn how this whole strategy impacted the institutional relationships within the IMF, hence between staff and the Executive Board. Plenty of attention is also given to transactions between the Washington-based crisis managers and national regulators in creditor countries, like central banks and supervisors. Here again, this aspect has not been much documented so far, to the effect that the continuous resistance to the Fed/IMF strategy by a large part of the Western policy establishment has also been ignored.

Chapter 6 discusses the properly economic dimension of the crisis, hence its macroeconomic parameters, but also the brutal experiences of hyperinflation in Latin America and the 'debt overhang' debate. Chapter 7 moves back to a more narrative approach and argues that 1987 marks the main turning point

in the progression of the crisis since 1982. While not necessarily perceived this way at the time, the shift resulted from a series of initiatives and underlying tectonic changes which, together, changed the terms of the international debate and opened the way to the last stage of the crisis. Chapter 8 discusses the genealogy, development and eventual success of the Brady Plan between 1989 and 1992, as well as its two-way interaction with capital markets.

The book then moves on to the testimonies of Volcker, de Larosière, Ortiz, Gurría, Rhodes and Dallara.

NOTES

1. Reinhart and Rogoff (2009) estimate that countries in default represented a maximum of 46 per cent of world GDP in 1933 (US included) and then fluctuated around an average of 26 per cent until 1952. During the 1980s the same ratio reached a maximum of 12.7 per cent in 1982–1985.
2. Reinhart and Trebesch (2016), for instance, estimate that during the interwar debt relief represented 46 per cent on foreign public debt outstanding in 1934, against 25 per cent. On this comparison see Eichengreen and Portes (1985); see also Dornbusch (1985), Jorgensen and Sachs (1991), Helleiner (1994, pp. 180–183) and Roos (2019, ch. 8).
3. Peru moved back to democracy in 1980 and was followed by Argentina (1983), Brazil (1984–1985), Uruguay (1985), Chile (1988–1989) and Paraguay (1989); some of these democracies proved more resilient than others, but the return of the military to the barracks was a broad-based movement.
4. Significantly, this episode is almost absent from the IMF-sponsored guidebook on sovereign debt recently edited by Ali Abbas and his colleagues (2020).
5. See for instance Reinhart and Trebesch (2013), Schumacher et al. (2018) and Meyer et al. (2022).
6. But see for instance Rogoff and Zettelmeyer (2002) and Das et al. (2012).
8. Hagan's (2002) retrospective essay is important, and so is the review of debt crisis management since the Second World War published by Das et al. (2012) as an IMF working paper.
9. The entry in the IMF archives can be found here under *Thorson's Oral History Project: Beginnings of IMF Stand-Bys in the 1950s and 1960s:* https:// archivescatalog .imf .org/ Details/ archive/ 110119483.
10. Al Costanzo, one of the main figures in the *Beginnings* (Thorston, 1994), recounts for instance how, as a mission chief, he met Alfredo Stroessner, the Paraguayan dictator between 1954 and 1989, and explained to him the objective of the IMF program then under negotiation: 'You know, what we're recommending here, what we're trying to do is exactly what Erhardt did in Germany.' And Costanzo continues: 'He liked that. That was it. If it was good enough for Erhardt, it was good enough for him. Because the good old German, Stroessner, was the son of a German sailor who jumped ship in Buenos Aires – they had a mutiny in Buenos Aires – and all these Germans… would become the leaders in the Paraguayan society. They were the first generation of these mutineers!!!' (Costanzo, in Thorston, 1994, 1(2), p. 9).

11. The archives of BNP or Société Générale do not stand out, and those of the Deutsche Bank, as of the Bundesbank, remain largely out of reach. Large files on debt restructurings, on a country-by-country basis, have been destroyed at the New York Federal Reserve Bank.