Documentation

Brady Plan under fire

***Financial Times* of London, editorial, March 13:**

One would have expected [Brady] to ensure that any new ideas were carefully considered, avoided the most obvious hazards and, at the very least, had the support of Mr. George Bush. Unfortunately, the 'suggestions' advanced last Friday fail to meet these criteria. . . . In all, they provide further evidence of an administration for which good intentions are a substitute for financial resources. Moreover, there is now a danger that ongoing debt negotiations will be derailed, with nothing concrete to put in their place. The problem of helping the indebted countries is intractable. . . . Debt reduction, for example, is perilous. Moral hazard is the greatest risk, with the largest rewards going to the worst-managed countries. It is important, therefore, to minimize official support for debt reduction as a general principle. . . .

A better approach is to use debt reduction as one way of increasing the net flow of resources to countries carrying out ambitious adjustment programmes. . . . Unless the industrial countries recognize the scale of official support required to secure successful adjustment in indebted countries, there may well be no path across the debt quagmire at all.

***Wall Street Journal,* March 14:**

Last week the U.S. Treasury announced debt relief in a poke, and this week the rest of the government is scurrying around trying to come up with something that can be depicted as redeeming the Treasury pledge without doing any actual harm. . . . The trick is to get flows of new investment into the debtor nations; how can you promote new investments and loans while writing off the old ones? The government is only now getting around to studying numbers showing that no conceivable amount of debt relief can provide the flows of cash needed for growth in debtor nations. . . .

President Bush's Treasury welshed, sending tremors wherever the word of the United States is important. A bridge loan was announced for Venezuela, but only after some 200 people had died in rioting; preventing such tragedies is what bridge loans are for. More generally, the Bush administration announced a "study" of Third World debt, effectively freeing action by either debtors or lenders. Now comes a debt-relief announcement without a debt-relief plan. While the Treasury announcement was grabbing headlines, Fitzwater was saying no presidential decision had been made, and that Brady's speech was merely "ideas," which is the basis on which it had been cleared. Despite denials, there is considerable acrimony within the U.S. government, including a feeling that the Treasury has been misrepresenting the private attitudes of such governments as Mexico and Britain. . . .

Empty promises of debt relief threaten to undercut our friends in the developing nations. Why free up markets and sell nationalized industries if "relief" is on the way? If the U.S. Treasury bills relief as both a moral and financial imperative, why not indulge Latin leftist romanticism? If Peru gets relief, why has Mexico gone through such agony to adjust? If the U.S. were to announce a debt-relief plan and walk away, the most likely result would be a drying up of financial flows into developing nations and a cascade of debt moratoriums. The left would gain in Latin America. OPEC might gain Mexico. International financial leadership would pass to Japan, certain to use it for mercantilist advantage, and to the Camdessus IMF, influenced by the socialist government in France and likely to reverse abruptly the turn away from prescribing devaluations as a Third World band aid. A lack of leadership would make more likely the general monetary collapse once predicted as a result of the debt "crisis.". . . The Treasury and the administration have generally been inept in their management of the debt problem, and the stakes are high indeed. On the present trajectory, debt relief spells U.S. abdication of world financial leadership.

***Los Angeles Times,* editorial, March 13:**

There is a certain unreality to the whole affair, marked by Brady's assertion that "we have accomplished much" when, in fact, the absence of progress has been appalling.

***Financial Times,* by Anthony Harris, March 13:**

Brady was studiedly vague about the scale of what he was proposing, and the detail of how it might work. Late in the day, the White House added its gloss: the president could not at this stage endorse what his secretary of the Treasury had said, because the details of any ultimate proposal were still being worked out. In the Bush administration, the "working out of detail" seems to mean that President Bush will announce the peace terms when the civil war inside his own Administration is over. This might be taken as an amusing example of the new style, which tries to stave off serious problems with kind words rather than specifics, were the background not so grave. . . . A banker saw a grimmer possibility. "Brady has opened the Pandora's box. The U.S. has now admitted that the debtors cannot pay, but has no adequate answer. Unless something happens very quickly, it is an open invitation to default.". . .

Brady repeatedly stressed the central importance of attracting back the flight capital . . . [but] everyone I met who had direct experience of LDC investment said this would be futile. . . .