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Miles Kahler

Explaining the Debt Crisis

Albert Fishlow

Debt: Lessons from the Past

Philip A. Wellons

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The Politics of Adjustment

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Ghana and Dependency

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Abstracts

Politics and international debt: explaining the crisis

by Miles Kahler

Most explanations of the debt crisis have been economic, emphasizing external shocks to debtor economies, inadequate and belated adjustment policies, or imperfections in financial markets. The last set of arguments, focused on market imperfections, suggests three ways in which states have intervened in international financial systems: ensuring system stability, regulating private actors, and managing (or refusing to accept) adjustment. Although commercial bank lending to sovereign borrowers in the 1970s seemed little affected by state action, banks relied on political assistance from their home governments, and clear political obstacles to adjustment remained. After 1982 political intervention by governments and international organizations became more overt. In explaining the present outcome of cooperation without reform, domestic politics are central. The United States was an equivocal system stabilizer because of domestic constraints. Bank lending was shaped by a politicized regulatory environment. The politics of adjustment influenced the bargaining strategies of debtor states.

Lessons from the past: capital markets during the 19th century and the interwar period

by Albert Fishlow

The performance of international capital markets before the First World War and during the interwar period provides lessons about the increase over the last 15 years in developing country debt. Four characteristics of borrower-lender relationships are decisive: the use of finance; the ease of transfer of service payments; the institutional form of intermediation; and the national sources of capital. Together these characteristics define three capital market modes. In the 19th century developmental lending to the temperate peripheral countries dominated. In the 1920s balance-of-payments lending to Europe, and especially Germany, compensated for the imbalance occasioned by reparations and war loans. In the last decade balance-of-payments finance has been going to developing countries in the wake of the OPEC oil shock of 1973–74.

International debt: the behavior of banks in a politicized environment

by Philip A. Wellons

In the debate about the world debt crisis most analysts have focused on the international system. They have largely ignored the long-term impact of the home governments

of the big banks. Yet those home governments—in France, West Germany, Japan, the United States, and the United Kingdom, the “Group of Five”—have, because of the dynamics of banking, been crucial actors in the system of international debt. For the banks, as a result, the political process at home is of central importance, not only for resolving crises but also for making initial decisions on the allocation of credit.

Democratic and authoritarian responses to the debt issue: Argentina, Brazil, Mexico

by Robert R. Kaufman

Attempts to impose conventional stabilization policies in the context of the contemporary debt problem raise the significant possibility of working-class opposition to incumbent governments. Different regimes in Argentina, Brazil, and Mexico have dealt with such opposition in different ways. The Mexican system, by coopting labor organizations into the dominant party structure, has been the most effective, although its political resources have significantly eroded. In Brazil and Argentina, on the other hand, the exclusionary policies of military-authoritarian regimes have provided at best only a short-term basis for sustained stabilization policies. The “military option” has been badly discredited in both societies. Democratic regimes in Argentina and Brazil have in the past experimented unsuccessfully with three strategies toward stabilization: the cooptation of labor through social pacts, the treatment of labor as a loyal opposition, and the avoidance of stabilization decrees. The first and third strategies are unlikely to work in the 1980s, but conditions are more favorable for a “loyal opposition” option, particularly under a center-right government. The consequences of stabilization decisions will depend on the development of international trade opportunities. Expanding trade will reward regimes (i.e., the Mexican or a center-right Brazilian government) that can sustain stabilization initiatives. Contracting trade might provide greater opportunities for Alfonsín’s center-left coalition in Argentina to mount successful challenges against prevailing international orthodoxies.

The politics of adjustment: lessons from the IMF’s Extended Fund Facility

by Stephan Haggard

Conventional wisdom holds that the programs of the International Monetary Fund (IMF) are politically destabilizing and that an “elective affinity” exists between IMF-style adjustment and authoritarianism. It is indeed true that democratic and even corporatist systems face daunting problems when they attempt stabilization. Authoritarian regimes fare little better, however, particularly where political authority is sustained by networks of clientelism and state patronage. Nor does stabilization necessarily produce authoritarian or repressive responses. To understand the politics of adjustment, it is necessary to look beyond regime type to the political and economic power of different social groups, the cohesiveness and ideological orientation of state elites, the availability of nonconditional resources, and the strength of administrative structures.