

## *The Debt Crisis of the 1980s, Law & Political Economy*

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The 1980s crisis is a major chapter in the history of sovereign debts and capital market, though one that surprisingly has attracted little interest since its conclusion, around 1992. This book proposes a new approach to the whole episode, based on many unexplored archives, public and private, and also on in-depth interviews with the key crisis-managers in particular: Jacques de Larosière (IMF), Bill Rhodes (commercial banks), Guillermo Ortiz (Mexican Central Bank), Angel Gurría (Mexican Minister of Finance) Charles Dallara (US Treasury). In these five cases, the transcripts of the testimonies are included in the book.

The core narrative thus extends from the build-up of the debt problem to the spectacular quasi-default of Mexico, in 1982, and till the 1989-1992 Brady Plan, when debts were at last written off. This confirms for instance that there was indeed a raw political reason beyond the incredible length of this crisis: most explicitly, no debt write-off could be envisaged before the Reagan administration was out, in late 1988. But archives also show that many at the top level, in New York and Washington, knew very well that the existing debt strategy could not deliver. Incidentally, these were also the years when the social costs of the debt crisis for borrowing economies were at their highest (such as high inflation, open banking crisis, rising inequalities).

Still, the perspective in this book is primarily analytical. The key economic debate of those years started from the failure of the first generation of stabilization programs, in 1982–1985, to return debtor countries to capital markets. The macroeconomic concept of a “debt overhang” (Sachs, Krugman) became the standard answer and was instrumental in building a consensus in favor of write-offs. It is argued, however, that this thesis was not confirmed *ex post*: from 1991 on, capital flowed massively into post-crisis countries but “fundamental” economic performances, starting with real investment, did not recover much. A more liquidity-driven approach to the late-1980s stalemate and its resolution is called for; hence, also, a full detour through the contractual engineering that underpinned the Brady debt agreements.

Lots of attention is also given to the rule-based procedure that the IMF assembled through trial and error from the late 1970s onwards, which eventually supported more than 100 debt restructurings over the 1980s. This regime can be seen, in hindsight, as the high point of classic postwar financial multilateralism, though it was curiously never formalized: no full description of this procedure was found, either in an international convention, in a G7 communiqué, in the IMF by-laws or even in its internal reports. Behind this silence were continuing, acute tensions within the Western policy elites: most of the debt agreements over the decade raised serious problems of collective action, requiring that hundreds of lending banks have their arms twisted, typically by central banks and national regulators, and often in an aggressive manner. But because neither the practice nor its criticism could be made public at the time, they have remained till now fully ignored. Key archives have even been destroyed or have remained off-limits till today.

Lastly, and in a longer-term perspective, the IMF interventions in dozens of countries during the 1980s revealed how far it had moved away from its founders’ vision, at the Bretton Woods conference. In 1944, crisis management and debt problems were neither on the agenda, nor in the mandate of the newly-born organization. The book shows how the IMF’s unexpected reinvention as a crisis manager, from the late 1950s on, opened the way to more experimentation and innovation, two decades later. This illustrates a unique institutional pattern of discretion and predictability, political control and staff autonomy: this still shapes today how this executive agency works, how it is governed, and how it innovates. Hence, lastly, the “law and political economy” approach of the book.