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Cleaning up Third World Debt Without Getting Taken to the Cleaners

Jeremy Bulow and Kenneth Rogoff

Should taxpayers of wealthy countries finance a leveraged buyout of third world debt? The case for establishing an international debt discount facility rests on the belief that the overhang of foreign commercial bank debt is stifling growth in the Highly Indebted Countries,[1] and that coordination problems among private sector banks are blocking efficiency-enhancing debt reduction schemes.[2] Thus there is scope for a multilateral government agency to step in, buy up the debts, and pass on the efficiency gains to struggling debtors. True, wealthy-country taxpayers would ultimately be liable for paying off the "junk" bonds issued to finance the leveraged buyout but the risks would be minimal, at least so the advocates say. Because the debt facility would buy up the debts at discount, it would be able to forgive a large enough fraction so that debtors could afford to repay the remainder.

Our contention is that a debt discount facility would in fact be a black hole for aid funds, and would yield only minimal efficiency benefits. First, the costs of buying up the debt would considerably exceed estimates based on current secondary market prices. Experiences such as the 1988 Bolivian buyback and the 1989 Mexican debt

[1]The World Bank's list of 17 Highly Indebted Countries includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Côte d'Ivoire, Ecuador, Jamaica, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.
[2]The term International Debt Discount Facility was coined by Peter Kenen in his pioneering 1983 proposal; since then dozens of related plans have been advanced.

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deal have shown that it is not at all easy to coerce all banks into selling at discount, and that otherwise the presence of an official buyer tends to bid up prices sharply. Second, if the track records of existing official lenders such as the World Bank are any guide, one has to doubt whether the debtor countries would continue to make any significant *net* repayments once their obligations passed into official hands. That is, sovereign debts worth $100 billion in the hands of hard-bargaining private banks may be worth only $10 billion once taken over by a lenient multilateral agency. Admittedly, our view contrasts with the conventional wisdom that multilateral lending institutions are hard money lenders and senior creditors to private banks, but the evidence on World Bank and International Monetary Fund loans during the 1980s supports us.

We also take issue with the presumption that the debt overhang is the primary cause of the growth slowdown in the Highly Indebted Countries. Indeed, the debt problem is better viewed as a symptom of poor growth rather than its primary cause. Many of the debtor countries have been hammered by adverse terms of trade shocks, and all have suffered long periods of poor economic management. In any event, it is questionable whether increased participation by creditor-country governments would expedite an efficient settlement. One can argue that it is precisely the presence of deep-pocketed creditor-country governments in debt negotiations which has led to the present impasse, and that efficiency would best be served by having less official involvement, not more.

Our assessment of the debt crisis suggests a very different approach. Development aid should be divorced from debt negotiations and instead should be tied to countries' performance in areas such as environmental policy, drug interdiction and population control. Future aid allocations should not be disguised as loan guarantees, and the massive bond obligations of existing multilateral lenders ought to be placed on the books. Finally, we recommend reversing a number of legal and regulatory changes made in the 1970s that served to encourage the loans in the first place.

Costs of a Debt Discount Facility

As of mid-1989, the Highly Indebted Countries owed roughly $300 billion to commercial banks in government and government-guaranteed debt. These debts trade at huge discounts; e.g., Chile 36 percent, Philippines 50 percent, Brazil 70 percent, Argentina 83 percent, Peru 97 percent. Evaluated at these prices, the total market value of the bank debt is less than $100 billion.

The most optimistic assessments of the taxpayer cost of a debt discount facility are based on the assumption that (a) the new government-backed institution would only have to pay $100 billion to buy up the debt, and (b) once two-thirds of their debt is forgiven, the Highly Indebted Countries will pay off the remaining debt like clockwork. Thus the agency will generate enough income to pay off most or all of the interest on the bonds issued to finance the repurchase. Wealthy-country taxpayers

would at most be responsible for putting up an initial $10 billion to capitalize the institution. Unfortunately, these calculations rest on some shaky assumptions.

How Much Would Banks Be Paid?

Before asking what price a multilateral debt facility would have to pay banks in a buyout, it's helpful to consider first what happens when a highly indebted country repurchases a portion of its own debt on the open market. Many countries have experimented with this approach over the past three years and buybacks are an important element of the current official approach to debt, the so-called Brady plan.

Open market buybacks are superficially appealing. What can go wrong if a country such as Peru, whose debt trades at less than five cents on the dollar, uses $1 worth of aid money to buy back $20 worth of debt? The basic problem is that the value to a highly indebted country of retiring a marginal dollar of its debt is generally far less than its market price. To consider an extreme example, consider a country which owes $1 billion, but with certainty will only be able to pay $100 million. In this case, the debtor would not benefit at all from a repurchase which knocks its debt down to $500 million; all that will happen is that the price of its remaining debt will rise to 20 cents. Indeed, this is also the price the country will have to pay in the buyback.

In fact, one can argue that this is precisely what happened in March 1988 when Bolivia repurchased roughly half of its $670 million dollar debt. Prior to the repurchase, Bolivia's $670 million in debt traded at 6 cents for a total market value of $40.2 million. After expending $34 million to buy back $308 million of its debt, the remaining $362 million traded at 11 cents, for a total market value of $39.8 million. (See Bulow and Rogoff, 1988a.)

Realistically, of course, there is generally some positive probability that the debtor country will repay the reduced debt in full. One also has to consider factors such as the benefits of reducing debt overhang, and the returns to alternative investments. For most of the Highly Indebted Countries, however, taking these factors into account does not appear to reverse the basic conclusion that open-market buybacks dissipate resources. (See Bulow and Rogoff, 1988a.) This criticism generalizes to all forms of open-market repurchases including debt-for-equity swaps and even debt-for-nature swaps. (In the latter, a conservation group repurchases some of the country's debt and swaps it back for local currency bonds. The interest from the bonds is then designated for funding domestic conservation programs. The implication of our analysis is that it is more efficient for a conservation group to donate funds directly to the country.)

A debt discount facility would face very similar problems to those described above. Banks will know that the new multilateral agency plans to forgive part of the debt it buys up, so that any remaining debt will appreciate. Thus, to induce them to tender voluntarily, the debt discount facility will have to pay banks a large premium. One way to finesse this problem, of course, would be for creditor country governments to jointly coerce the banks into selling at a low price. It is extremely unclear whether this is possible, however, given that private banks have both significant legal rights and substantial political clout in most creditor countries. Note that the United States

could not accomplish much by acting unilaterally. Its banks hold only a quarter of the debt; even in the case of Latin America, they hold only a third.

Another approach would be to make the debt discount facility's claims senior to those of any private creditors who refuse to sell. Many advocates of a debt discount facility seem to see this as a real possibility. After all, aren't the debts of the existing multilateral institutions already senior to private debt?

The conventional view that the International Monetary Fund and the World Bank are senior debtors is based on the observation that few countries have ever explicitly defaulted on their loans from these institutions. But then few borrowers have ever been required to make repayments over any sustained period. During 1982–1987, for example, multilateral official creditors re-lent $1.29 to the Highly Indebted Countries for every dollar repaid (World Bank, 1988). Few debtors will default on repayments from creditors who are always relending all repayments, and doling out new "loans" beside.

Over the same period when the multilateral institutions were receiving negative net repayments, the commercial banks succeeded in extracting net repayments of more than 50 cents for every dollar owed. Given their experience with existing multilateral institutions, it will not be easy to convince bankers that their claims will be junior to those of the new debt facility. Thus we conclude that the facility would probably have to pay considerably in excess of $100 billion for the initial buyback.

How Much Will Debtors Repay the Debt Discount Facility?

Our views on the seniority of IMF and World Bank debt translate into similar skepticism about the odds of seeing the developing countries make substantial net repayments to a multilateral debt discount facility. In all likelihood, creditor-country taxpayers would find themselves having to pay off the facility's bonds, a sum far exceeding their initial capital contribution.

Stripping away debt accounting conventions, it is simply hard to imagine that funds will flow from developing-country governments to industrialized-country governments for any extended period. In the past, the developing countries have consistently succeeded in extracting positive net intergovernmental transfers. The mere creation of some paper claims will not change the fundamental bargaining factors which govern relations between the governments.

Private banks have proven to be much tougher bargainers than public lending institutions. Thus debt worth $100 billion in the hands of private banks would likely be worth much less in the hands of a multilateral debt discount facility.

Is Public Intervention into Debt Efficiency-Enhancing?

Most of the debate on developing-country debt is not over whether creditor country governments should intervene, but how they should do it. Since the onset of the debt crisis in 1982, academics, bankers and statesmen have advanced literally hundreds of financial engineering schemes for resolving the problem. The common presumption is that subsidies from industrialized country taxpayers are needed to

induce banks and debtor countries to make mutually beneficial, efficiency-enhancing deals.

The fact is that the International Monetary Fund, the World Bank and the industrialized country governments have been deeply enmeshed in private debt negotiations for almost eight years, and that they have already kicked in tens of billions of dollars in aid money. Far from speeding compromise, the presence of official creditors has tended to ossify the negotiating position of the banks and countries.[3]

Consider what happens when an owner and a buyer try to agree on the price of a house. The owner may ask for $205,000 while the buyer may offer $195,000. If there were no parties involved in the negotiations, the two sides might quickly settle on a sale price of $200,000. But what if there is a real estate broker involved? Each party would have an incentive to take a more intransigent posture, hoping that the broker can be convinced to kick in part of the commission to sweeten the deal. The presence of an outside party with a vested interest can actually complicate negotiations.

Of course, North-South relations transcend the debt crisis. It may be a practical impossibility for creditor-country governments to stay out of negotiations, even if they want to. Still, the less creditor-country governments are involved in the bargaining over private debt, the better.

Debt Overhang

What about the view that the overhang of foreign debt is stifling growth in the Highly Indebted Countries, and that alleviating the overhang would lead to an investment boom? This theory suggests that once a large fraction of their debt is forgiven, debtor countries will easily generate enough income to pay off (more precisely, to be willing to pay off) their remaining obligations, and our estimates of the costs of a debt discount facility are overblown. Our assessment of the post-1982 debt crisis is that it is a symptom of the HICs' growth problems, not the principal cause. Several observations should help support this latter view.

It is often overlooked that a large fraction of the growth shortfall in the Highly Indebted Countries occurred from 1980 to 1983, *before* the countries were required to make any significant debt repayments. The worldwide recession of 1980–82, caused in part by a steep rise in world interest rates, was a disaster for the HICs. Their real per capita GDP plummeted by 9.7 percent between 1980 and 1983 (International Monetary Fund, 1989, Table A6). This period also marked the onset of a prolonged deterioration in the terms of trade for developing countries. After climbing by 5.5 percent per year during the 1970s, the terms of trade for the Highly Indebted Countries fell by 3.7 percent annually between 1980 and 1988.[4]

[3]Bulow and Rogoff (1988b) present a dynamic bargaining-theoretic model of the three way negotiations between creditor banks, debtor countries and creditor country taxpayers.

[4]International Monetary Fund, *World Economic Outlook* (April 1989), table A28, P. 154. Implicitly, we are treating the Highly Indebted Countries, which are small in comparison with the industrialized countries, as price takers in world markets. Of course, if a debtor country has monopoly power, then the transfer problem becomes an issue.

The debt crisis began only after almost three years of dismal growth. Indeed, during 1980–1982, the Highly Indebted Countries were still receiving substantial net resource transfers from abroad; they received $24 billion more in new long-term loans than they were required to repay in principal and interest. Even as late as 1983, the HICs made net repayments on government and government-guaranteed long term debt of .02 percent of GDP (World Bank, 1988). Substantial net transfers abroad began only in 1984, averaging 2.5 percent of GDP from 1984–1988. It is true that real growth in per capita GDP has averaged an unsatisfactory 0.5 percent since then, but on the other hand the HICs' terms of trade deteriorated about as rapidly between 1983 and 1988 as between 1980 and 1983 (International Monetary Fund, 1989, Table A6).

Another seldom-noted fact is that in comparison with earlier periods, the current level of investment in the HICs is not extraordinarily low. Consider the case of Latin America, which accounts for well over half the problem loans. During the 1960–73 era, before the debt buildup began in earnest, Latin American investment averaged roughly 20 percent of GDP. The ratio for 1987 was roughly two points lower, at 18.2 percent. But the investment ratio for industrialized countries has fallen even more sharply, from over 24 percent in 1960–73 to 20.7 in 1987.[5] It is only relative to the peaks of the late 1970s that Latin American investment today looks so low. Moreover, the difference between periods may be exaggerated. As Carlos Diaz-Alejandro (1984) and others have emphasized, the investment data for the 1970s includes an exceptionally large amount of government consumption.

Also, it would be wrong to blame any investment shortfall solely on the unwillingness of private banks to invest in the region. Latin America's own citizens have the resources needed to increase investment if profitable opportunities are available. Several years before the debt crisis began, Latin citizens began moving tremendous sums of money out of their countries (Cumby and Levich, 1987). Estimates of total capital flight, including money diverted to foreign direct investment such as corporate stock and Florida real estate, actually exceed the book value of the countries' government and government-guaranteed foreign bank debt, as shown in Table 1. Table 2 shows that by the end of 1988, the $100 billion-plus of Latin American *bank deposits alone* held in the North approximated the market value of this debt (World Bank, 1989b). Thus if one aggregates the government and private sectors, some "highly indebted" Latin American countries may even be net creditors!

Given that so much capital flight preceded the debt crisis, one should be reluctant to accept the popular view that the banks' demands for debt repayment were the major factor contributing to capital flight. We offer an alternative story. High interest rates abroad, combined with low commodity prices and misguided economic policies discouraged Latin citizens from making domestic investments. This made bank loans less secure and precipitated demands for repayment.

[5]See International Monetary Fund, *International Financial Statistics*, 1988 Yearbook pp. 168–169, and World Bank, *World Development Report 1989*, table A7, p. 149. Data for 1960–73 includes all Western Hemisphere developing countries.

Table 1
Capital Flight
(In billions of 1987 dollars)

	Flight Capital Assets	*As Percentage of Long Term Public and Publicly Guaranteed Debt*
Argentina	$46	111%
Bolivia	2	178
Brazil	31	46
Chile	2	17
Colombia	7	103
Ecuador	7	115
Ivory Coast	0	0
Mexico	84	114
Morocco	3	54
Nigeria	20	136
Peru	2	27
Philippines	23	188
Uruguay	4	159
Venezuela	58	240
Yugoslavia	6	79
Total	295	103

Sources: Flight Capital, Morgan Stanley as cited in "The International Economy," July/August 1989. Debt, World Debt Tables, 1988–89 edition. Data refer to external debt to private creditors.

At a casual level, it is certainly difficult to detect a strong relationship between the amount a highly indebted country has devoted to debt repayment and its growth rate. Chile, perhaps Latin America's most conscientious repayer in recent years, saw real per capita GDP grow by 3.5 percent per year from 1983–1988 (Latin Finance, 1989). In contrast, Argentina stopped making debt repayments entirely in April 1988 and experienced a near total collapse of its economy over the next 18 months. Peru, which stopped repaying debt in 1986, did enjoy two years of solid growth until it ran out of foreign currency reserves. After that, however, its economy deteriorated sharply (Dornbusch, 1989). Of course, the Republic of Korea, considered by many a problem debtor at the onset of the debt crisis, enjoyed tremendous growth while making the largest debt payments in the world from 1986 to 1987.

The Dubious Equity Grounds for a Debt Bailout

Northern policy makers should not be swayed by "moral" arguments that they should contribute to wiping out the debt. The average per capita income in the 17 Highly Indebted Countries was $1430 in 1987. This compares with $470 in developing

Table 2
Net Northern commercial bank claims on developing countries
(In millions of dollars)

Country	*Commercial Bank Claims (1)*	*Market Value of Bank Claims (2)*	*Commercial Bank Liabilities (3)*
Argentina	35,090	7,369	11,735
Bolivia	424	42	568
Brazil	75,891	30,356	16,181
Chile	11,011	6,276	4,292
Colombia	6,946	3,994	5,795
Costa Rica	866	104	276
Ecuador	4,874	609	1,237
Ivory Coast	3,177	731	2,218
Jamaica	613	245	557
Mexico	69,315	29,632	24,466
Morocco	5,081	2,439	1,411
Nigeria	8,869	2,040	2,975
Peru	4,555	228	2,723
Philippines	12,267	6,011	3,984
Uruguay	2,019	1,201	3,547
Venezuela	25,523	10,401	15,907
Yugoslavia	9,013	4,056	3,806
17 HICs	275,534	105,734	101,678

Sources: Columns (1) and (3), World Bank, *Quarterly Review* (June 1989). Column (2), computed by multiplying column (1) by prices from Salomon Brothers, "Indicative Prices for Less Developed Country Bank Loans," December 22, 1988. Market value may be underestimated because of the greater value of trade credits. Commercial bank liabilities consist of Latin deposits held in foreign commercial banks, including both government and private deposits.

East Asia and $290 in South Asia; booming Thailand's per capita GNP was only $850. While South Korea's per capita income (measured in dollars) caught up to Argentina's in 1986, many nontraded goods such as housing are far more expensive in Korea, and the average worker toils longer and harder. Even Bolivia, South America's basket case, has twice the per capita income of India (World Bank, 1989a).

Another consideration which dictates against increasing aid to Latin America at the expense of other regions is that incomes in Latin America are much less evenly distributed than in Asia. If the 1970s are any guide, the poorer half of the Latin American population will receive only a meager share of the benefits of any new net flows to the region.

Fundamentally, decisions about where to provide foreign aid in the 1990s should not be straightjacketed by the decisions commercial bank lending officers made in the 1970s. Why should wealthy Brazil, which borrowed to finance pharaonic investments in the 1970s, receive scarce aid funds that might otherwise go to poor but growing Thailand or impoverished Africa?

Aid and Debt in the 1990s

We believe that the main focus of aid to developing countries should be to encourage responsible policies towards the environment, population growth, and other areas where third world actions create major externalities. Mexico's population explosion, Colombia's drug enforcement program, and Brazil's policies towards deforestation will have a far greater impact on northern welfare in the next century than any policies these countries might adopt towards their foreign bank debts. The industrialized countries can ill afford to tie up huge quantities of aid resources in grandiose debt reduction schemes at a time when funds are urgently needed for negotiating solutions to far more important problems.

A concrete method for rechanneling aid would be to create an International Citizenship Fund as a new grant-making arm of the World Bank. Aid from the ICF would be completely independent of a country's performance in "repaying" its existing World Bank and IMF loans. Industrialized country contributions to the new facility could be based on similar criteria to those used for making grants to developing countries. For example, industrialized countries might be given incentives to reduce the burning of fossil fuels, and to curtail the production of chlorofluorocarbons and other halons. Contributions to drug eradication programs could be based on industrialized country drug use. Subjecting the industrialized countries to requirements parallel to those for developing countries would surely make the ICF more politically palatable in the third world.

Restructure Official Debt

To help avoid having ICF aid become entangled with existing IMF and World Bank loans, it is important to reform the financial structure of these agencies. In many respects, the World Bank is capitalized like the U.S. savings and loan associations of the 1980s. That is, it borrows most of its money from private sources using member-country government guarantees as collateral. Little of the World Banks's subscribed capital is paid in directly; for example, of the $74.8 billion capital increase approved in April 1988, only 3 percent is to be paid in capital. The remainder will be "callable" capital, which the member countries must pay only if the World Bank cannot meet its financial obligations.[6]

Since most outstanding official loans will never really be repaid anyway, these debts should be written down. This would force the World Bank's sponsors to assume the Bank's bond liabilities directly, and put these costs "on the books." Policymakers and taxpayers would then have a clearer picture about the amount of aid they are providing, and the IMF and World Bank staff would be able to focus on development issues without becoming entangled in debt accounting.

[6]Of course, since the guarantees of some member states like the Highly Indebted Countries can hardly be considered "money in the Bank," the World Bank must keep its borrowings somewhat below its total callable capital.

Leave Private Debt Hanging

Our debt plan focuses on restructuring official "lending." Of course, debtors would be free to use aid money to negotiate efficient debt reduction deals with the private creditors. (We are assuming that the incentive payments required to induce countries to conform with their citizenship targets would considerably exceed countries' net internal costs.) With the decks cleared of official creditors, there would be nothing blocking the very competent country and bank negotiators from designing their own efficient debt reduction plans. However, since our approach enables debtors to threaten to use their funds for other purposes, it should allow them to bargain for better terms than when aid funds are tied to buybacks.

In fact, we suspect that few debtors would divert substantial resources to debt reduction, and that most of the private debt would be left hanging. Though some third-world leaders find it politically popular to blame all their countries' problems on foreign debt, most realize that debt elimination would be no cure-all, and that other issues deserve equal or greater attention.

Reform the Laws on Private Lending

There is a tendency to think of the 1970s as the halcyon days of sovereign lending, when developing countries were able to borrow vast sums in world capital markets. Back then, many creditor-country governments considered banks' efforts to "recycle" petrodollars praiseworthy and enacted legal changes to help the market develop. The United States, for example, passed the Foreign Sovereign Immunities Act in 1976, and Great Britain passed the similar State Immunity Act of 1978. These laws made it easier for foreign sovereigns to borrow under the umbrella of the industrialized countries' legal systems, by strengthening and clarifying the rights of a sovereign's creditors in default. The main weapon creditors have is the ability to seize assets abroad; this allows them to make it difficult for a country to default and still enjoy the full benefits of integration into world goods and financial markets.[7]

The expansion of the sovereign debt market in the 1970s was really quite dramatic. As of 1970, Argentina, Brazil, and Mexico combined owed their foreign private creditors roughly $6 billion in principal. By 1982, however, the annual interest bill for Mexico alone had topped $10 billion. Table 3 should give an idea of the explosive growth of third world debt from 1970 to 1982.

In the sober light of the 1990s, it is far from clear whether official policy should have encouraged these loans. Though some did go to finance worthwhile investment projects, a very large percentage went to finance conspicuously unpromising government investment projects and capital flight. Indeed as we discussed above, over much of the period wealthy Latin citizens were "re-recycling" the loan money out of their countries as fast as the banks were recycling it in. In other cases, bank loans were used

[7]For a more detailed discussion of creditors' legal rights and the probable costs to a country of evading them, see Bulow and Rogoff (1989a). For a discussion of reputational factors underpinning sovereign loans, see Bulow and Rogoff (1989b).

Table 3
The explosive growth of Third World debt
(In millions of dollars)

	1970		*1982*	
	Interest	*Principal*	*Interest*	*Principal*
Argentina	88	1,494	1,167	15,846
Brazil	81	2,224	5,373	50,087
Chile	39	886	485	4,063
Mexico	156	2,047	5,754	44,683
Venezuela	20	362	1,611	11,930
17 HICs	512	10,228	17,971	174,296

Source: World Debt Tables, 1988–89 edition, volumes 1 and 2. Data refer to public and publicly guaranteed long term debts to private creditors.

to temporarily support unpopular dictatorships, such as in Argentina or the Philippines.

The experience of the 1970s suggests that in the future, industrialized countries should try to steer adjudication of developing-country loans into debtor-country courts. Foreign creditors would then presumably have the same types of recourse in default as domestic creditors now have. To accomplish this end, some of the legal changes adopted in the 1970s must be reversed.

Conclusions

Many of our criticisms of an international debt facility apply with equal force to the March 1989 plan of Treasury Secretary Nicholas Brady. Under the Brady blueprint, governments of the industrialized countries are planning to devote at least $30 billion to $40 billion over the next three years to help buy back third world debt at discount. Recent academic research on buybacks suggest that a very substantial fraction of these funds will end up in the hands of private banks, without benefiting debtors. Even if this were not the case, it is hard to see why such a large fraction of world aid budgets should necessarily go to middle-income countries with large bank debts.

In contrast, the premise of our debt strategy is that most aid money should be devoted to environmental problems, population control, and other issues in North-South relations that involve externalities. By offering a flow of funds conditional on meeting environmental targets, rather than the large one-time commitment payment needed for a leveraged buyout of debt, donors will have more power to enforce agreements with aid recipients. Creating a new grant-making arm of the World Bank, an International Citizen Fund, is one way to accomplish this goal. It would also help

divorce official aid payments from negotiations between debtor nations and private banks, and so streamline the bargaining process.

Any excess foreign exchange countries earn by meeting their international citizenship targets could be spent in whatever manner they think best. If a country does decide to use its aid to negotiate a debt reduction deal, its ability to redirect funds to other areas should enable it to negotiate more attractive terms.

Finally, by preventing countries from forfeiting their sovereign immunity status when they negotiate future loans, our plan will effectively make new debt contracts enforceable only in debtor country courts. Investors will only lend if they perceive that there will be a strong political consensus to repay. Current leaders will not be able to indenture the income of future generations quite so easily, and the imprudent borrowing policies of the 1970s could not be repeated.

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