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Debt problems and equitable solutions

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The debt crisis is now in its seventh year and the situation has worsened considerably. Debt burdens have become unsustainable in human terms in Sub-Saharan Africa and in political terms in Latin America. Various proposals have been mooted to resolve the crisis, the latest being the Brady Plan. How "fair" are these proposals to the debtors? How does one operationalise criteria such as equity and fairness? In addressing these questions this paper draws on an on-going research study commissioned by Trócaire entitled "Towards an Equitable Solution to the Third World Debt Problem".

A highly publicised debt initiative was launched by the US government in March of this year. That such was needed is testimony to the continued problems posed by the external debt of Third World countries. The exact nature of the problem varies depending on the perspective of the commentator. It can be argued, for instance, that one of the chief motives of US government intervention is its foreign policy interests in Latin America. This is understandable as the outcome of self-interested behaviour. What can make this a problem is that the US line on a global matter such as the debt usually dominates. As a consequence, the interests of debtor countries may become secondary. In the past couple of years, it has been argued that any solution ought to be fair to debtors. This raises

the question as to what principles ought to govern such a "fair" solution.

In this paper we will outline principles of fairness which may be used in framing and evaluating solutions to the Third World debt situation. The first section documents the magnitude of debt in the developing countries and provides a short chronology of events leading up to the current state of affairs. It also contains a stylized explanation of how a country can get into an external debt crisis. This is followed by an overview of the principles of equity or fairness. Finally, these principles are used to evaluate the recent US initiative.

Debt Problems

The gross domestic product (GDP) measures the value of output produced within an economy during a particular year. A useful perspective can be had by comparing the value of external debt in a particular year to this figure. At the end of 1988 the total external debt of developing countries reached $1.2 trillion or 35.6% of GDP.[1] While this represents an improvement on the 1987 figure of 37.7%, it is still considerably above the 1981 figure of 27.8%. A comparison of these two years certainly suggests that the situation has in some sense become worse. We begin this section with a brief chronology of the main events since the international community was made aware of the Third World Debt Crisis in August 1982. We follow this with a simplified explanation of the underlying mechanics of the debt problem.

In August 1982 Mexico's total foreign debt stood at $80 billion or $1,146 per head of population. The corresponding level of GDP per capita was $2090. On 30 August 1982 Mexico declared its inability to pay the $13 billion service payments (i.e. scheduled repayments of principal and interest payments) which were due on this foreign debt. A temporary suspension of debt service payments was announced. Other Latin American countries in similar circumstances, such as Brazil and Argentina, soon took a similar stance and so Mexico's action marked the inauguration of what has become known as the International Debt Crisis. By the end of 1982, the total external debt of all developing countries was $842 billion or 31.4% of GDP. At this point two epicentres of the crisis had already been identified. These are two World Bank country groupings: the seventeen

middle-income developing countries designated Highly Indebted Countries (HICs) (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Jamaica, Mexico, Peru, Uruguay, Venezuela, Morocco, Nigeria, the Ivory Coast, the Philippines and Yugoslavia) and the 48 low-income African countries comprising Sub-Saharan Africa. In 1982, the former grouping accounted for 47% of the total outstanding external debt of all developing countries, owed for the most part to commercial creditors (mainly banks) in the developed countries. While the share of Sub-Saharan Africa was smaller at 5% and the main creditors were official (i.e. governments of developing countries and multilateral agencies such as the International Monetary Fund and the World Bank), the burden of repayments was large when compared to the economic and financial resources of these countries.

Responses

The initial strategy response to the debt crisis was the negotiation, on a case-by-case basis, of agreements on debt service payments between the debtor countries and their creditors. These agreements generally involved the putting into place of IMF-approved macroeconomic adjustment programmes by the debtor countries. Assistance from the IMF was made conditional on such programmes. The rescheduling of debt payments to the commercial banks was also made conditional on IMF approval. While the main objective of this "muddle through" strategy was to prevent the collapse of the international financial system, it was also expected in the longer run to result in renewed growth and lender confidence in the debtor countries.

The "muddle through" strategy succeeded in averting the collapse of the international financial system but the approach proved to be unsustainable in the longer run and by 1985 the feeling of crisis had returned. Many debtor countries found that they could no longer fulfil the IMF conditions. For example, in the HICs consumption expenditure per head fell on average by 1.8% per year between 1980 and 1984. This generated not only economic hardship but also political and social instability. In 1985, Peru announced that no more than 10% of its export earnings would be allocated to debt service payments. Other countries followed suit and many developing countries began to discuss the idea of forming a debtor's cartel. In October 1985, at the annual meetings of the World Bank and IMF, US Treasury Secretary James Baker III set out what has become known as the

"Baker Initiative". The theme of this plan was "growth with adjustment". The proposal was aimed at 15 of the 17 HICs as well as at Sub-Saharan Africa. It required commitments from three parties: the debtor countries should adopt IMF-approved economic adjustment policies; the multilateral banks should provide additional lending and policy guidance; and the creditor commercial banks should provide additional lending to the debtor countries over the following three years.

The lack of success of the Baker Plan is well documented. Although many debtor countries adopted the "right" economic policies, the promised rewards were either slow to appear or did not materialise at all. World Bank disbursements to these countries actually fell from $8.6 billion in 1984-85 to $8.2 billion in 1985-86. Although the commercial banks endorsed the plan, this was not reflected by an increase in their lending activities. Despite its apparent failure, the Baker Plan was significant in that it recognised the need for co-ordinated action by debtors, creditors and international institutions in solving the debt crisis and it proposed a plan of action to achieve this.

By the end of 1986, the external debt of all developing countries had surpassed US$1 trillion for the first time. This represents an increase of approximately 31% over the corresponding figure in 1982. A new "rescue package" involving $6 billion of additional commercial bank lending was negotiated by Mexico. Concern for the economic survival of many Sub-Saharan African countries increased. The ratio of foreign debt to Gross National Product (GNP) for this country grouping increased from 38.8% in 1985 to 59% in 1986 and 82.7% in 1987. Payment rescheduling became a standard component of all debt negotiations and agreements. The Paris Club (an informal meeting of representatives of countries who are official creditors of developing countries) has been the principal forum for debt relief packages for those low-income African countries whose external debt obligations are official in nature. The leaders of the Group of Seven (G-7) countries (Canada, France, Germany, Italy, Japan, UK, and US), at a summit meeting in Toronto in June 1988, broke new ground by agreeing on a menu of options on debt relief for low-income countries. This menu included provisions for: debt cancellation of up to one third of debt service payments falling due in a particular period; rescheduling of debt service payments at market rates over a particular period of time; and reduced interest rates on rescheduled debt.

The most recent major initiative on resolving the problem of third world debt comes in the form of the Brady Plan. This

proposal was launched by US Treasury Secretary Nicholas Brady in March 1989. It is based on the principle of "voluntary debt reduction" or debt relief (or forgiveness). Under this proposal the commercial banks are encouraged to write-off some of their debt and leave the debtors with less interest to pay and the IMF and World Bank are envisaged as offering cash or financial guarantees to encourage the heavily indebted countries to negotiate cuts in their debt principal or interest. We shall defer further discussion of this proposal to our final section p. 109.

How debt problems arise

Let us now consider how a foreign debt may arise. One way in which a country can spend more than its current income allows is to borrow from foreign sources. This leads to the creation of an external liability with the consequent obligations to meet interest and principal repayments (i.e. debt service payments) to the foreign source. These service payments on external debt are denominated for the most part in the foreign currencies. The existence of the foreign debt is not of itself a problem as long as the use(s) to which the borrowed money is put will generate sufficient income to meet the service payments on these external obligations. Problems will clearly emerge if the borrowings are channelled into consumption or unproductive investment projects.

Since the Second World War a large number of agencies have been established in order to channel funds from developed to developing countries in an attempt to raise the level of well-being in the latter. Since these funds initially came in large part in the form of official grant aid, they resulted in a net resource transfer to developing countries. During the 1970s, particularly with the availability of petro-dollars in the aftermath of the first oil price shock, many developing countries resorted to borrowing from private banks in the developed world. At the time this was considered to be a cheap way of getting funds as high inflation rates together with low nominal interest made the real cost of borrowing low and in some cases negative. From the perspective of the commercial banks in the developed world it was the most productive use of surplus petro-dollar funds. Since the demand for investment funds from the developed world was low at that time, the alternative to making these loans was to hold the funds in the bank vaults and absorb the losses resulting from payment of interest to creditors.

So far we have established how foreign debt may arise. We now

turn to an explanation of how debt may accumulate and become a burden for an economy. As we saw above, when a country borrows from abroad the service payments on this debt must be made in foreign currencies. The sources of foreign currencies which are available to a country include: official holdings of foreign reserves which the country has accumulated over time; net inflows of foreign currencies from the excess of export revenues over import payments abroad (i.e. a trade surplus); inflows of foreign currencies from the investment by foreigners in the country and new foreign borrowing. Given the magnitudes of external debt described above, it is easy to imagine how the associated interest and principal repayments can quickly exhaust a country's holdings of official foreign reserves. Foreign investment in the country can be a very volatile source of foreign currency reserves. Such investment is often discouraged by a perception abroad that the country is facing financial and economic difficulties. This puts the burden of adjustment on the trade surplus. In order to generate sufficient foreign currency reserves to meet debt service payments, the trade surplus must be increased by a combination of changes in exports and/or imports. However, there is a limit to what can be achieved by a policy of maximising a country's trade surplus. Moreover growing trade surpluses in developing countries give rise to demands for protectionist policies by the industrial sectors of developed countries.

The possibility of capital flight introduces a further complication. This is where domestic owners of capital transfer their money to foreign banks in the expectation of a better and less risky rate of return. The effect will be a loss of monies which would otherwise have been available for investment in the domestic economy. This in turn puts more pressure of adjustment on the trade surplus, which we have suggested may have reached its capacity. Additional foreign reserves can only be found by contracting new loans. Of course, this new debt has been taken out to pay obligations on existing debt. In time and in the absence of any other adjustment, it will be necessary to borrow further to meet obligations on this new debt. This illustrates, at a conceptual level, how debt can be accumulated and how a country can become trapped in a spiral of ever increasing debt.

The dynamics of the acquisition of foreign reserves to meet debt service obligations by any country can be quite intricate. Our stylised explanation for a hypothetical debtor country has pinpointed some economic magnitudes which are indicative of a country's standing in relation to its ability to hold and service

external debt. The main measures widely quoted in literature on the debt include: the ratios of debt to GDP, debt to exports, debt service to exports and interest payments to exports; and resource transfers. These are presented for the aggregate of developing countries in Table 1.

Table 1: Debt ratios and resource transfers for developing countries, 1981 and 1987

RATIOS OF	1981	1987
Debt to GDP (%)	27.8	37.7
Debt to exports (%)	95.8	158.7
Debt service to exports (%)	16.2	20.3
Interest service to exports (%)	8.7	9.3
Net transfers[a] ($ billion)	35	–38

Source: *World Economic Outlook*, IMF, April 1989
World Development Report, World Bank, 1989

a: Net transfers = gross lending disbursements to developing countries minus interest and principal repayments from developing countries

The general picture that emerges from this table is that matters have worsened considerably between 1981 and 1987. Of particular relevance in the context of our discussion above is that net transfers associated with borrowing have become negative at —$38 billion and this has put an increased onus on exports to generate the required foreign exchange to service the debt. Using our stylized explanation above, the figures in Table 1 indicate the nature of the crisis in which developing countries find themselves. Without debt relief, a growth in export values is the only route out of crisis. Even if export prices do not fall and if investment in export industries is maintained, this so-called "growing out of debt" would be a lengthy process. Debt relief is required for a more rapid solution. This was the conclusion of the Williamson[2]

study, which, it appears, had considerable influence on the framing of the Brady initiative.

The aggregate figures on the magnitude of external debt quoted above and the debt ratios presented in Table 1 provide little indication of the hardship suffered by particular individuals or groups of individuals in a debtor country. In the majority of developing countries, wealth is highly unequally distributed among the population. Surveys in the 1970s, for instance, showed that the poorest 40% of the population in Brazil and Peru earned only 7% of total income[3]. More recently, UNICEF[4] have documented how the economic adjustment policies pursued by the debtor countries have tended to worsen the social conditions of the poorer sections of their populations. The low income groups have not only had their meagre incomes eroded by the rapid increases in the prices of basic necessities but have also been particularly hard hit by higher unemployment rates. The same groups have also suffered greatly from the sharp reductions in government spending in the areas of health and education. For these reasons, debt burdens have become unsustainable in human terms in Sub-Saharan Africa and in political terms in Latin America. It is essential, therefore, that we should evaluate solutions to the debt crisis on equity grounds.

Equitable Solutions

We wish to use an equity perspective to evaluate proposals for alleviating the Third World debt problem. In order to do this we must begin by explaining what is meant by fairness and justice. The idea of fairness in social interaction is at once conceptually difficult and profoundly important. For those who believe that fairness should be centre stage in any discussion of Third World debt and development, this presents a challenge. In order to convince others of the importance of fairness arguments, it is necessary to have formulated and be able to communicate your notion of fairness. This effort must begin with the enunciation of principles.

Broadly speaking there are two philosophical traditions from which people approach the enunciation of principles. We will refer to these as the "outcome" approach and the "process" approach. The "process" approach is usually associated with a minimalist conception of the functions of the state. Such a state is defined by Nozick[5] in the following terms: "a minimal state,

limited to the narrow functions of protection against force, theft, fraud, enforcement of contracts, and so on, is justified; . . . any more extensive state will violate persons' rights not to be forced to do certain things, and is unjustified". He justifies this position by reference to the process by which an outcome emerges and rejects the notion that principles can be based on "end-states". In other words, justice is defined not with respect to a particular distribution of income (an end-state), but in terms of the process that generated those incomes[6]. The basis of this viewpoint can either be a belief that individuals have "natural rights" with justice being violated when individuals are deprived of these rights, or an emphasis on the need for "fair rules and processes" with the outcome being deemed fair if the process is fair. The difficulty for this school of thought is in identifying absolute rights and the nature of fair process. Nozick's conception of these leads him to take a very narrow view of the role of the state. As a consequence, he argues that redistributive activity ought to be limited.[7]

The guiding principle of the "outcome" view of justice is the postulate of "asset egalitarianism", which has been defined by Arrow[8] as the belief that all the assets of society, including personal skills, are available as a common pool for whatever distribution is required by justice. In particular, redistributive policies which take the product of some individuals and give it to others are just if they raise the well-being of society, appropriately defined. Justice is specified in terms of a ranking of end-states (e.g., income distributions). This view is clearly likely to give rise to a much broader conception of the role of the state than would be advocated by Nozick. The difficulty for this approach is in formulating a means of ranking end-states. Economists use a device known as the "social welfare function", which is essentially a formal way to codify value judgements, for this purpose.

In this paper we will follow the "outcome" approach. This is not to suggest that we can "prove" that this is the superior view. Each approach faces a fundamental difficulty in application. The process view requires a theory of the just acquisition of property rights while the outcome view needs some means of ranking end-states. Our bias reflects the tradition of modern welfare economics which concentrates on this latter task.

In order to use equity considerations in evaluating proposals for the alleviation of the debt crisis, we will need a means of operationalising the outcome view of justice. For this purpose, we will use the following criteria: *Liberty; Efficiency; Vertical Equity; Horizontal Equity.*

The notion of liberty, Rawls[9] argues, requires that: "each person engaged in an institution or affected by it has an equal right to the most extensive liberty compatible with a like liberty for all". Liberty refers to, what Rawls calls, "opportunities of citizenship", such as freedom of conscience and basic civil rights.[10] Rawls suggests that the most basic principle of justice is the "priority of liberty". According to this, the loss of freedom for some cannot be justified by an improvement in the economic well-being of others. Thus, while the outcome approach considers that the assets of society are available for redistribution so as to make the society more just in economic terms, this must proceed in a context that respects basic liberties.

The remaining criteria can be thought of as rules of thumb to be used in achieving economic justice. Policy interventions that seek to promote efficiency, for instance, proceed by attempting to identify and correct impediments to the operation, or "imperfections", of the market. This principle involves "weak" ethical criteria in that it can only be used in comparing states of the world where some may be made better off without making anyone worse off.[11] In order to have a more complete ordering of social states, it is necessary to supplement this criterion.

The vertical equity criterion is concerned with the treatment of unequals. In operationalising this criterion we follow the "ability to pay" tradition. The ability to pay criterion accepts inequalities only if they increase the lot of the least well-off. On the face of it, this rule would lead to equalisation of income. However, it is recognised that this may not be in the interests of society because of adverse incentive effects. In other words, the incentive to exert effort by the more able could be diminished by this policy and this would in turn reduce the well-being of the less able. Therefore, a partial equalisation is usually favoured.

The principle of horizontal equity is usually defined as saying that "equals should be treated equally". There is some debate as to how this should be interpreted. We prefer the interpretation associated with Musgrave[12] that horizontal equity may be seen as a "safeguard against capricious discrimination". In other words, it is a concern that individuals not be treated differently on the basis of irrelevant characteristics.

These criteria can be used to appraise proposals for solving the debt crisis from an equity perspective. In the next section we will consider these questions in the context of the recent initiative by US Treasury Secretary Nicholas Brady.

Evaluating Brady

The nature of debt in Latin America and, in particular, the political stability of these debtors was a major strategic concern for Mr George Bush when he took office in January 1989. New presidents had taken office in Mexico and Venezuela and each showed themselves willing to cooperate with IMF prescriptions for their countries. Within twelve months, elections were due in Argentina, Brazil, Chile, Colombia and Peru. It was clear that the reactions to the requests of Mexico and Venezuela for an easing of their debt burdens could influence the political out-turns in these other countries. Therefore, from the strategic perspective of the US, there was an urgent need to offer some real hope of debt relief to these countries.

This offer came in the form of an initiative launched by US Treasury Secretary, Nicholas Brady, in March 1989. Brady suggested that the IMF and the World Bank should offer financial guarantees to encourage heavily indebted countries and their creditor banks to negotiate cuts in debt principal or interest. While the plan was sparse on details, it is significant in that it gives legitimacy to debt forgiveness. The Japanese offer of finance at Toronto was to be used in building up a fund at the agencies to back these guarantees. Some commentators have suggested that the plan was an attempt "to combine America's cashless leadership with Japan's leaderless cash".[13]

The Brady proposal came under scrutiny at the Spring meetings of the IMF/World Bank in Washington in April. The debate revealed division among the G-7 industrial countries over the strategy. The US line was supported by France and Japan while the UK and West Germany formed the opposition. The joint communique issued suggested success for the US faction. It departed from earlier communiques in that it did not contain a warning that there should be no transfer of risk - arising from debt reduction - from the private sector to taxpayers of the industrialised countries. It was generally agreed, however, that the first real test of the Brady initiative would be the outcome of the Mexican debt renegotiation. Brady hoped that this would be completed in time for the July meeting of the G-7 in Paris. This did not materialise and in the event, the deal was not concluded until 24 July 1989.

The deal covers $54 billion of Mexico's $69 billion foreign bank debt. It was negotiated with a fifteen bank committee

representing the country's 500 bank creditors. Under its terms the banks can choose one of the following:

(1) Swap old loans for 30 year bonds at 35% discount to face value. These will pay interest at the same rate as the old loans - 13/16 of a percentage point over the London Inter Bank Offer Rate; or

(2) Swap old loans for 30-year bonds with the same face value. These "par" bonds will pay a fixed interest rate of 6.25%; or

(3) Agree to lend new money (or recycle interest received from Mexico) for four years, involving a commitment of 25% of their current medium- and long-term exposure.

Any bank that reduces its debt and takes bonds will have interest payments on them guaranteed for at least 18 months. The bonds' principal will be secured by a Treasury bond. Some $7 billion has been put aside by the IMF, the World Bank, Japan and Mexico to finance these guarantees.

Is the Brady Plan fair and just from the perspective of debtor countries? In the remainder of the paper, we will attempt to evaluate the plan against our criteria for equity. Application of the liberty criterion would require that a debt alleviation plan not threaten the self-determination of the debtor countries. In particular, it ought not be directed to influencing the political out-turn in these countries. This dictum is in conflict with what are generally perceived as US strategic interests. Above we argued that these interests were an important issue around the time that the plan was framed. The US is unlikely to abandon such concerns. It is a problem for the rest of the developed world to act so as to balance the US strategic interests against the need for self-determination for debtors. This is a concern that goes beyond the specific issue of the debt crisis. It can be said, however, that the Brady Plan will be unfair if it results in relief only in areas of US strategic interest.

The criterion of efficiency is very powerful with regard to designing solutions to the debt crisis. One must note, however, that the concept of efficiency is often used incorrectly to support fallacious arguments. These arguments usually dismiss the possibility of debt forgiveness as inefficient. For this to be correct, the point would need to be supported by an illustration of how forgiveness would result in some distorting influence on the market. The only one that is offered is the possibility that future access to the market for credit will be denied to debtors that take advantage of forgiveness. However, as we argue elsewhere,[14] this view is not supported by the historical evidence of past debt crises. The criterion of efficiency can in fact be used to argue for

intervention to bring about a solution to the debt crisis. The no intervention/ no forgiveness lobby believe that individual action by debtors and creditors in the marketplace will result in the efficient outcome. This will only be true in the absence of what economists call externalities[15] and where the information available to market participants is complete. Failing this, an argument can be made on efficiency grounds to effect a solution. In their comparison of the financial crises of the 1930s and the 1980s, Eichengreen and Portes[16] conclude that there are grounds for such intervention. This, they argue, should take the form of credit market regulation and international macroeconomic coordination.

A recent paper by Dooley[17] presents an efficiency case for debt relief. He constructs an example where it is in the collective interest, but not the individual interest, of creditors to grant debt relief. This would suggest that intervention is required in order to bring about the outcome that is in the collective interest.

The efficiency criterion can therefore be used to argue the need for: credit market intervention; debt relief; and international macroeconomic coordination. On this basis the Brady Plan's advocacy of debt relief is welcome. It does not involve any major new development in regard to macroeconomic coordination and the regulation of credit markets, however.

The ability to pay criterion can be used to argue for a sharing of the debt burden. In other words, the participants should contribute to the burden according to their ability to pay. The legitimisation of debt forgiveness introduced by the Brady Plan involves sharing. It does not outline a rule or a mechanism according to which the extent of the sharing can be determined. This means that the relative fairness of deals will be a function of bargaining strengths. In our opinion, some measure of subsistence should be used in determining the degree of forgiveness to be extended to any debtor country. A method of ranking countries for debt forgiveness (or a degree thereof), according to ability to pay, is required. In doing this it is important to bear in mind that the ability to pay of the government may differ from that of the people of a country.[18]

The application of the criterion of horizontal equity brings to the forefront the question of whether the deal should be global or case-by-case. The case-by-case approach was useful at the outset of the debt crisis in 1982 because there was no structure in place to respond quickly to a crisis situation. That type of approach, however, does not provide any continuity of strategy once the crisis has passed. In our opinion, it is crucial that general

principles be used to establish the parameters for one-on-one discussion. It is in this way that the rules of the game (including the criteria associated with fairness) for players can be clearly laid down. What we envisage, therefore, would be the enunciation of some general eligibility conditions. Resolution of any creditor/ debtor problem could then be handled on a case-by-case basis within these guiding principles. For example, in cases of debt rescheduling, for the most part, the granting to countries of favourable terms has been ad hoc. From our perspective, a definition of desirable criteria to reschedule debt for different countries ought to have been essential in this process. The Brady Plan does not contain provisions of this sort. As a consequence, there is no reason to expect that the outcome will accord with the criterion of horizontal equity.

How does the Brady Plan score in the light of the principles and questions outlined above?[19] Given that the Brady initiative is still quite vague in its details, it is difficult to assess its significance. Even though a plan has been struck for Mexico, it will take at least to the end of the year before many conditions of the plan are clarified. However, drawing on the information that has emerged to date, we can use our framework to raise a number of matters about the proposal. While debt forgiveness has been firmly placed on the agenda, the initiative is weak in getting effective joint cooperation between the IMF and the World Bank. It still fails to establish or indeed admit the importance of global principles - principles that could be policed by a third party and act to recognise horizontal and vertical equity criteria. It envisages voluntary participation on the part of banks. This may get them involved in debt relief via the guarantees that are being offered. However, it is weak in structuring an incentive scheme for new lending. The plan suggested interest relief but its vagueness has allowed the IMF Interim Committee to play down this issue by suggesting that this element be "studied" further. The road to a just solution to the debt crisis still needs to be marked out clearly. Most of all, agencies concerned with justice need to persuade policy makers of the efficacy of this route.

Footnotes

1 IMF, *World Economic Outlook*, April 1989

2. Williamson, J. *Voluntary Approaches to Debt Relief*, Paper 25, Institute for International Economics, Washington, September 1988

3. World Bank, *World Development Report*, 1988

4. Cornia G. et al., eds., *Adjustment with a Human Face*, Clarendon Press, Oxford, Vol. 1, 1987 and Vol. 2, 1988

5. Nozick R., *Anarchy, State and Utopia*, Basil Blackwell, Oxford, 1974, p. ix.

6. Atkinson, A. and J. Stiglitz., *Lectures in Public Economics*, McGraw-Hill, 1980, p. 337

7. There is scope in this view for a broader conception of the role of the state. Most writers in this tradition take a very narrow view of the state, however.

8. Arrow K., "Some Ordinalist-Utilitarian Notes on Rawls Theory of Justice", *The Journal of Philosophy*, Vol. 70, No. 9, May 1973, p. 248

9. Rawls J., "Distributive Justice", in E. Phelps, ed., *Economic Justice*, Penguin, 1973, p. 323

10. We see here that the outcome approach does not deny rights in the political sense.

11. Efficiency is a much abused term. It has a specific meaning when used in the economics context. However, the meaning used by popular commentators is often not supportable by theory.

12. Musgrave R., *The Theory of Public Finance*, McGraw-Hill, 1959, p. 160

13. *Business Week*, May 1989.

14. McCarthy M., and T. McCarthy, "Debt and Development in the Third World", *North-South Issues*, No. 13, Trócaire, January 1989

15. An externality is said to exist when a market transaction delivers costs or benefits to a third party not involved in the transaction.

16. Eichengreen B., and R. Portes "The Anatomy of Financial Crises", in Portes and Swoboda, (eds), *Threats to International Financial Stability*, Cambridge University Press, 1987

17. Dooley M., "Debt Relief and Leveraged Buy-Outs", *International Economic Review*, Vol. 30, No. 1, February, 1989, pp. 71-75.

18. These issues will be taken up in greater detail in McCarthy and McCarthy, *Towards an Equitable Solution to the Third World Debt Problem*, in preparation for Trócaire.

19. We have neglected the question of the trade-off between criteria. This goes beyond the scope of the present paper.