Collection: Stucky, Edward: Files
Folder Title: International Debt
Box: 6

to: David Mulford
Charles Dallara

room: date: 4/2/84

Department of the Treasury

Office of the Secretary

Attached is a copy of the sensitive memo we discussed in the hallway. Secretary Regan asked for a short response (1-2 page) to the President on the international debt strategy. Please remember that what you write for the President may be seen by others (i.e., Feldstein). A response by close of business Tuesday would be timely.

DC

David Chew

Attachment

cc: Chris Hicks
Ed Stucky

David L. Chew
Executive Assistant
to the Secretary
room 3408
phone 566-5901

84-04222

THE WHITE HOUSE
WASHINGTON

March 30, 1984

MR. PRESIDENT:

I have provided a copy of this memo to Don Regan -- who, as you know, has lead responsibility in this area.

Dick

Richard G. Darman

cc: Donald T. Regan

March 29, 1984

MEMORANDUM FOR THE PRESIDENT

FROM: MARTIN FELDSTEIN MF

SUBJECT: International Debt

I believe that the current problem with Argentina is only a symptom of the way in which the Latin American debt situation is deteriorating. As I said when we discussed this several months ago, I think it is important for us to reexamine our strategy.

My own tentative conclusion is that it should be possible to shift to a course of action that will improve conditions for both the U.S. banks and the debtor nations. The debtor nations need to avoid continued economic decline. The banks need to be confident of future repayment of their loans.

The kind of strategy that I have in mind would contain the following four elements:

(1) The banks would agree to divide their annual interest charge to the debtors into a portion that is payable now and a portion that is automatically added to the principal of the loans.

(2) To make this possible, the U.S. bank regulators would clarify the existing rules to indicate that such an arrangement does not jeopardize the "good standing" of those loans.

(3) The debtor countries would benefit from the reduction in annual interest payments. This reduction in interest outlays would allow them to import more from American exporters and other industrial nations. With more imports of machinery, parts and materials, the debtor countries would have improved growth prospects.

(4) The debtor nations would cooperate by reducing their real exchange rates relative to the industrial currencies, thereby promoting their internal growth and their export earnings. With higher export earnings, these debtor nations will be in a better long-term position to repay their bank debts.

As you can see, the strategy requires sacrifices by both bankers and debtors but both groups also gain. We as a government help by making it clear through the bank regulators that such arrangements by the banks are desirable.

I would very much like to discuss this with you and the others who are concerned with the international debt problem. I will ask your scheduling people for a meeting.

THE WHITE HOUSE

WASHINGTON

October 30, 1985

MEMORANDUM FOR THE PRESIDENT

FROM: ALFRED H. KINGON

SUBJECT: U.S. Initiative on LDC Debt Proposal

Don Regan advised me that in your bilaterals in New York the Treasury/LDC debt problems came up and that it would be helpful for you to have a summary of the proposals.

I have asked Jim Baker to prepare that and it is attached.

Attachment

bcc: Donald Regan (w/attachment)

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THE SECRETARY OF THE TREASURY
WASHINGTON

October 29, 1985

FYI

MEMORANDUM FOR THE PRESIDENT

FROM: James A. Baker, III

SUBJECT: U.S. Initiative on LDC Debt Problem

This memorandum summarizes the status of our initiative regarding LDC debt.

Background

In preparing for the IMF/World Bank annual meetings, it was apparent that we faced a deteriorating international economic and political climate, particularly in Latin America, which could have led to radical proposals to deal with the LDC debt problem and severe criticism of the United States. Garcia of Peru and Fidel Castro were visibly trying to recreate interest in some form of "debtors' cartel." While their proposals were generally viewed as extreme, responsible LDC leaders were nonetheless showing a declining interest in resisting the politicization of the debt issue.

As I discussed with you and Don Regan, it was essential that the U.S. present constructive proposals at the meetings which would respond to LDC concerns and defuse a potentially explosive situation. Accordingly, we worked closely with George Shultz and Paul Volcker to develop the proposals which the U.S. presented at the Seoul meetings. The "Program for Sustained Growth" which I outlined builds on the case-by-case approach of the global debt strategy adopted in 1982/83 and initiates the next phase by focusing on the fundamental economic reforms necessary to achieve long-term, non-inflationary growth in the principal debtor countries.

The Program

The Program for Sustained Growth incorporates three essential and mutually reinforcing elements:

- First and foremost, adoption by the principal debtor countries of comprehensive short and long-term economic and structural policies to promote non-inflationary growth and financial stability. The focus is on strengthening the economic foundation essential for preserving democracy in the key Latin countries which are having difficulty in obtaining financing from private markets. These countries

Ltr Straus to Leonard 8/22/06
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are being asked to implement growth-oriented economic policies that will enhance reliance on market forces and the private sector. In this next phase, they would be expected not only to bring inflation and their balance of payments under control (as in the first phase); but also to adopt "supply-side" policies for longer term growth -- policies that would re-attract flight capital and foreign investment, reduce the relative share of public investment, and provide market-incentives for long-term growth.

o Second, a continued central role for the IMF, complemented by increased and more effective lending by the multilateral development banks (MDBs). We are seeking reforms by the World Bank and Inter-American Development Bank (IDB) which would permit a 50 percent increase in disbursements by the institutions to the principal troubled debtors over the next three years -- conditioned upon the adoption by these countries of market-oriented policies for growth.

o Third, increased lending by the commercial banks (both U.S. and foreign) in support of sound economic programs by the principal debtors. A modest increase in bank lending, roughly 2-1/2 to 3 percent annually or about $20 billion over the next three years, would reduce the risks to the banks by encouraging the sound policies by the borrowers necessary to improve the quality of outstanding loans. The banks have not been asked to write a blank check. The increase in lending is itself to be conditional -- it would only take place in a context where conditions one and two above had been met.

Initial Reactions

The initial reaction to the U.S. proposals has been quite positive. We have avoided the politicization of the debt issue. And there is broad recognition among the countries, commercial banks and international institutions that there is no real alternative to a cooperative approach in which each must do its part for all to reap the benefits from increased growth. We are moving ahead quickly to build on the momentum that has been achieved by obtaining commitments by each participant.

Next Steps

In this context, we are seeking implementation of specific measures that provide a clear signal that each participant is willing to meet its responsiblities.

o Principal debtors. Our initial contacts will be with Argentina to determine their willingness to adopt a comprehensive program for growth that could be supported by the international community. Mexico has already begun negotiations on a new IMF program which will require courageous action by the government. We will follow the negotiations closely in order to be in a position to be as helpful as possible.

- Commercial banks. Paul Volcker and I have been in contact with the banks regarding their participation. We anticipate a general statement of support in the near future although our plan leaves to the banks the means to implement the commitments to provide additional financing.

- International institutions. The World Bank and IDB have been told that U.S. support for capital increases is contingent upon adoption of reforms that improve the efficiency and quality of their operations. The IDB replenishment negotiations are scheduled to begin in January and provide a first test of the willingness of Latin countries to implement fundamental reforms in the institutions and their economies.

At this stage, the U.S. proposals do not require increased budget commitments -- and we have made none. However, if all participants do their part and an increase in quality lending materializes, a capital increase for the IDB and World Bank will be necessary in due course. The timing and scope of the capital increases will depend on negotiations and Congressional action on the budget deficit. It is our intention that replenishments for the institutions should result in budget outlays which are lower than current U.S. commitments. Any costs to the U.S. would be substantially less than the consequences of dealing with a threat to the stability of the banking system.

In Sum

The U.S. proposals have served to strengthen our leadership role in the world economy and provide a positive approach to achieving sustained global growth. The successful implementation of the program should serve to ameliorate the political and social pressures in Latin America arising from the perception that the only solution to the debt problem was prolonged austerity and reduced living standards.

I am encouraged by the initial reactions. But, as of course you know, we are still a long way from having "solved" the third-world debt problem.