The international debt crisis in historical perspective. Edited by BARRY EICHENGREEN AND PETER H. LINDERT. Cambridge, MA and London: MIT Press, 1989. Pp. ix, 282. $25.00. ISBN 0–262–05041–2. *JEL 90–0931*

The debt crisis of the 1980s has now entered its resolution phase after eight years of on-and-off debt repayment, multiple debt reschedulings, and various ambitious plans for resolving the debt crisis. This volume edited by Eichen-

green and Lindert contains seven informative papers by economists and political scientists that compare and contrast the present international debt crisis with earlier debt episodes from the 1880s to the interwar period. Rather surprisingly, many contemporary institutions and phenomena, such as commercial bank steering committees, the provision of new money or funding loans with stringent conditionality, and proposals for debt conversions are shown to have their counterparts in earlier times. Cardoso and Dornbusch, for instance, show that Brazil in 1943 offered its bonds holders a menu of options, including a newly issued exit bond, that is remarkably similar to the new money and exit options offered to Brazil's bank creditors in June 1988.

The individual authors tackle a broad range of questions for the various historical episodes, such as: how much were private creditors repaid, which creditors were repaid and why, and what was the involvement of creditor governments in the debt negotiation and resolution process. These issues all feature in modern game theoretic treatments of sovereign debt repayment, and it is a major achievement of this volume to bring together the historical evidence for past and present debt crises.

. Several authors report calculations for the historical rates of return on international debts achieved by private creditors. Ex post rates of return are pieced together from historical records of countries' interest and principal repayments and of debt buybacks, if any. For sterling and dollar bonds floated in the 1920s, Eichengreen and Portes report overall positive rates of return. For bonds floated between 1850 and 1945, Lindert concludes average returns were positive, and not materially less than returns on alternative investments in domestic bonds in the United Kingdom and the United States. Lindert also computes preliminary returns on public external developing country bank debt for the period 1973–1986. As the debtor countries were mostly current on their debts as of 1986, the best scenario rate of return on these debts, conditioned on continued repayment, is slightly better than for an alternative investment in 7-year U.S. Treasury bonds. The worst possible internal rate of return, conditioned on complete default starting in 1986, is −17.5 percent. With the implementation of the Brady plan, not all debts will be repayed fully, and thus commercial bank debts may turn out to perform worse than U.S. Treasury bonds. However, Lindert's computations ignore the sizable tax credits U.S. banks can claim for interest witholding taxes paid in the borrowing countries as well as any subsidies implicit in federal deposit insurance; the computations thus may underrepresent the true return for these loans. Overall, private creditors appear to have done reasonably well with their international lendings, despite some spectacular defaults, which suggests that the periodic recurrences of international lending crises are not just a case of creditor myopia.

Jorgenson and Sachs compute the ex post returns on international bonds to four countries that defaulted in the 1920s, namely Bolivia, Chile, Colombia, and Peru, and compare these returns with the return on bonds to Argentina, a nondefaulter. The countries that defaulted and later rescheduled are shown to have repaid between 52 and 85 per cent in present value, which points at considerable burden sharing between debtors and creditors in the interwar period. As Argentina did not obtain preferential commerical bank credit terms in the 1970s, it is concluded that past repayment performance does not influence future credit access or terms. This conclusion, however, conflicts with regression results by Ozler (1988) who finds that prewar defaults by debtor nations significantly influence bank credit terms extended in the 1970s.

Several authors point out that a main difference between the interwar debt crisis and the current crisis is the level of involvement of the credit country government. While as Eichengreen and Portes show official involvement in the prewar era was far from absent, the transition from bond to bank finance appears to have heightened official involvement. The debt crisis of the 1980s threatened the solvency of several major banks and the overall health of the creditor country banking systems. As a result, Jorgenson and Sachs argue creditor country authorities forced developing countries to stay current on their debts to prevent a collapse of the creditor financial system.

As the editors state in their introduction, the information gathered in this volume can be used to answer two substantive questions: how the

present debt crisis should be wound down, and whether the transition from international bond lending to private bank credit has served the world community well. The editors leave it to the individual authors to summarize their reading of the evidence. On the first count, Dornbusch proposes a plan to convert debt service obligations into investment certificates to be relent to the borrowing country central banks to stem the outflow of capital from the debtor nations and to finance internal investment—at least for several years. On the second count, several authors restate that the move to commercial banks lending has lead to an absence of adequate burden sharing in the recent debt crisis. While this has been beneficial to the commercial banks, it seems to run counter to an efficient international sharing of risk. Even if debt crises differ in important respects, Eichengreen and Portes conclude that the current debt crisis will not be the last and that some things stay the same: they already predict which countries will be delinquent once again in the next debt crisis.

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