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John Bull

Thank you for your letter of 1 June enclosing an updated version of our outline scheme for restructuring international debt.

A number of general schemes for international debt have been put forward, of which yours was one of the first. All involve protecting banks or debtors (or both) from the consequences of past action and a cost, or a potential one, to taxpayers in creditor countries. They would also cut across the existing arrangements for securing adjustment. The Treasury and Civil Service Select Committee, when it came down in its 1983 report on international debt against global schemes, made the point that were such schemes to be considered the process could actually discourage new money and the return to normality.

For my part I am not persuaded that we need a new global strategy. Nor were any of my colleagues when we discussed debt at the recent Economic Summit. Far better in my view to persist with the existing case-by-case strategy built around adjustment by debtors, a central role for the IMF, a limited continuing flow of new money and encouragement to the banks to ensure adequate provisioning. The existing strategy also to my mind has the merit of putting an appropriate responsibility for the response to the debt problem on the parties who contributed to it.

But I am conscious that this is a developing situation which needs to be kept regularly under review.

Nigel Lawson

NIGEL LAWSON