

ALTERNATIVE APPROACHES TO THE DEBT ISSUE

by Séamus O Síocháin

Since the debt crisis erupted in 1982, the poor in the heavily indebted countries have paid a heavy price. As Cardinal Arnos of Sao Paulo in Brazil said "every time the United States raises its interest rates, thousands die in the Third World, because money that would be used for health care and food is sent outside these countries to pay the debt." Higher interest rates, falling commodity prices, inflation, devaluation, cheap labour policies, slashed public expenditure all have hit the poor hardest. Yet, as well as causing suffering, the I.M.F. austerity programmes have failed in their primary goal, which was to guarantee the continuation of debtor country repayments. The growing recognition of this failure has strengthened the position of those who have long argued for alternative policies. What are some of the alternatives available?

DEFAULT ON DEBT REPUDIATION

It has been reasonably argued that the Third World debt has, in fact, already been paid: interest rate increases (linked with the U.S.'s own major budget deficit) have meant that debtors have made higher than anticipated repayments; falling commodity prices have meant that they earned less from exports (the 11% fall in 1985 saved the Western countries \$65 billion- twice as much as they gave in aid); capital outflows have meant substantial sums ending up in Western banks (an estimat-

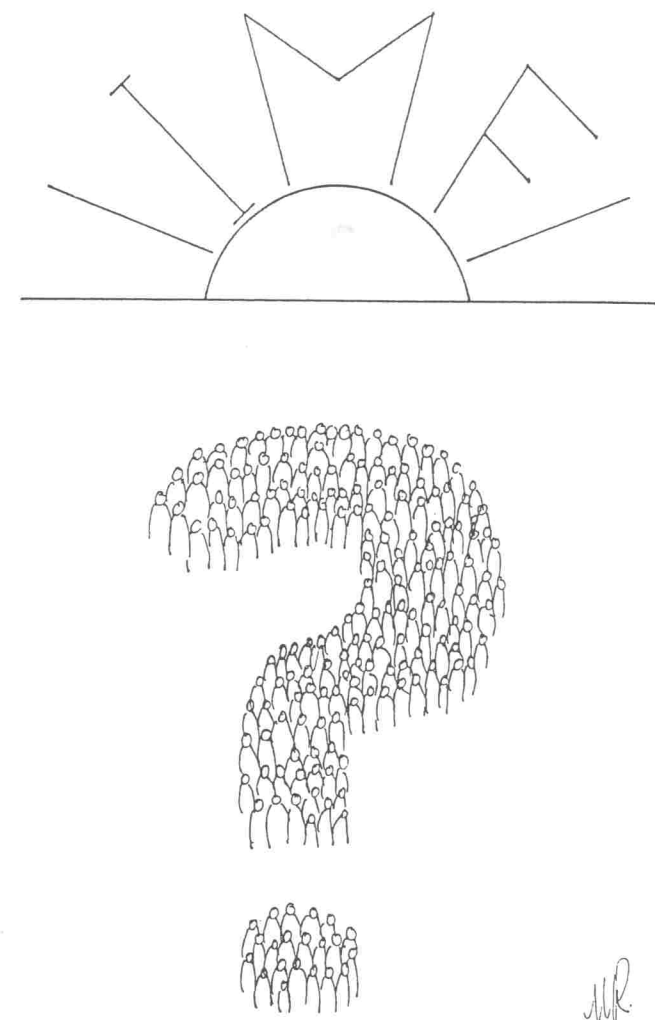


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ed \$6-10 billion of the Philippine debt is money exported by the Marcos family).

If the debt has, in effect, been paid already, why not default- repudiate the debt and suspend payments? During the economic depression of the 1930s many Latin American countries did suspend interest payments, which according to a recent study "allowed the largest among the....to finance the imports needed to regain economic momentum via augmented public-works programmes and import-

substitution industrialization." It has also been pointed out that "the U.S. itself effectively cancelled a foreign debt of \$68 billion by renouncing its commitment to convert foreign holdings of dollars into gold at \$35 an ounce."

Why the have no Third World governments defaulted? Arthur Mac Ewan suggests the reasons. The first is that, compared to the 1930s, today's is heavily concentrated in the larger banks making it easier for the to organise negotiated reschedulings. The second

reason has to do with the class system in the debtor countries: the current orthodox responses to the debt crisis meet the needs of the elites who control the political and economic systems in the debtor countries. Austerity programmes have some winners as well as many losers; if the poor have borne the brunt of the suffering, some of the elite have benefited. Those in export-oriented industries have been beneficiaries, while those relying on the home market have often gone under. The elite too, stand to gain from cheap labour and a weak labour movement. The third reason Mac Ewan suggests is the fear that defaults could undermine the stability of the international financial system, hurting all in the process. While the likelihood of financial turmoil following defaults is debatable, the class interests of most Third World governments makes them unwilling to threaten the system.

A less sweeping possibility is that the suspension of payments on total debt would be selective or *partial repudiation* of repayments. Examples are not hard to find of debt derived from white-elephant projects accompanied by both foreign and local corruption. Similarly, governments have assumed ultimate responsibility for debts incurred by private companies, where the latter have over-extended themselves. Again such cases are frequently attended by corruption and by the retention on the part companies or individuals associated with them of considerable overseas assets. Repudiation

of debt in such circumstances seems entirely justified.

MORATORIUM

Less radical than repudiation would be a temporary suspension of payments, - a moratorium. Some advocates, for example the U.S. Catholic bishops, have argued that a substantial moratorium may be the only way to relieve suffering and lay the basis for sustained recovery for the heavily indebted Latin American countries. A moratorium, it is argued, "would bring immediate and deserved relief" from punishing austerity programmes. "It would allow the domestic industries to recover some momentum, and it would also ultimately force more reasonable financial agreements from the creditors' cartel"

Bolivia, in fact suspended payments in 1985. In February 1987 Brazil decreed a partial moratorium, interrupting payment of the debt service. She later re-established negotiations with the creditors.

DEBT REPUDIATION MEASURES

A range of narrower options exists for attempting to reduce the level of the debt and its impact. Some derive more from the creditors or Western countries, some from the debtors. It is in the power of creditors, for example, to **write off portions of debt**. Western governments (debt is held by governments, multilateral banks and private banks) are urged to write off some or all the debt of the poorest countries. Secondly, international agreement can be reached to **lower interest rates** on outstanding debt - the figure of 1% or 2% above the world inflation rate has been suggested. Alternatively, interest rates could be fixed or have a maximum rate. **Rescheduling** is the option most commonly reported on, but has been criticised as being no solution.

In the opinion of a Commonwealth group of experts, led by Lord Lever, "rescheduling is simply a way of postponing the day of default when it comes." Finally, agreement could be reached in the West to take steps to **reduce the net transfer of funds from debtor to creditor countries**, included could be increased aid flows and controlled financing.

Other measures have been suggested or implemented by debtor countries. Foremost are the proposals to limit interest payments on debt to a certain **percentage of export earnings**. Suggested figures have varied, some arguing for a lower percentage (10%) for those in severest difficulties (see *Freedom from Debt Coalition*). A second measure is linked with the degree of **Capital Flight** from heavily indebted countries. The Marcos millions have captured headlines, but the phenomenon is much more widespread; wealthy elites have consistently protected themselves against the crises in their own countries by storing away vast sums in First World banks (available for lending again to the indebted countries!). One estimate puts the capital flight from Mexico, Brazil and Argentina between 1981 and 1984 at \$60 billion, or 60% of the increase in these countries debt over those years. A second estimate claims that wealthy Latin Americans have exported at least \$180 billion, amounting to half the regions foreign debt. In response to such capital flight, governments of indebted countries are being encouraged to erect firm barriers against capital flight and to pursue the return of capital already exported.

PROTECTING THE VULNERABLE

Apart from the need for initiatives to reduce the burden of debt on the countries as a whole, it is increasingly

recognised that the most vulnerable people within countries ought not to be the principal victims of spending cut-backs aimed at alleviating the debt problem. Basic services, such as health and education, which benefit the poor - and especially women and children - must not be cut. Revenue ought rather be increased both by higher wealth taxes and by cutting expenditure on costly armament programmes and 'white-elephant' development projects (see *'Philippine Debt' and the case of the Bataan Nuclear Power Plant*). The vulnerable can further be protected by policies which give priority to indigenous food sufficiency and even by a selective 'de-linking from the world economy.

STRENGTHENING THE VULNERABLE

Beyond the need to protect the vulnerable is the longer term need to strengthen the vulnerable and their bargaining power in the international arena. In effect, a strong cartel of creditors exists, whereas debtors are largely disunited. Some increased co-operation has been in evidence among creditors in recent years - the Catanga Group of major Latin American debtors has demanded a reduction in interest rates, while the Organisation for African Unity has tried to encourage a common approach among

its members. Efforts must be made to increase further the co-operation of debtors both at regional and full international levels

The likelihood of a stronger debtors' stance and the character of that stance, in turn, depend on the debt issue being given a prominent place by people's organisations within the indebted countries. Indeed struggle against debt can be one element in building up the capabilities of such organisations. Awareness-raising and action programmes at local level might focus, for example, on the link between debt and costly and often questionable electricity-generating programmes, such as nuclear plants and hydroelectric dams. Local level action, in turn, can feed into national, where monitoring might take place, for example, so that monies saved through debt reduction are channeled into specifically designated and constructive development programmes.

Finally, the lessons of the debt crisis ought to lead to a more imaginative approach to alternative models of development which would give priority to basic needs, both, material and non-material, to the importance of a necessary degree of self sufficiency in food production, to economic policies which are environmentally sound, and to a meaningful level of popular participation.

Notes

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| 1. | Quoted in | <i>Pollin and Zepeda</i> | pg. 14 |
| 2. | " | " <i>ibid</i> | pg. 15 |
| 3. | " | " <i>ibid</i> | pg. 13 |
| 4. | " | "John Clarke <i>For Richer for Poorer</i> | pg. 67 |

Sources

- Robin Broad 1988 *Unusual Alliance, 1979-1986; the WB, the IMF and the Philippines* Atenco de Manila Press.
- John Clark 1986 *For Richer for Poorer* Oxfam.
- Arthur Mac Ewan 1986 'Latin America: Why not Default?' *Monthly Review*.
- Henry Magdoff 1986 'Third World Debt- Past and Present' *Monthly Review*.
- Gustavo Martin 1988 *An Approach to an Alternative Policy to Deal with the Debt Crisis*. Pries Argentina.
- Robert Pollin and Eduardo Zepeda 1987 'Latin American Debt: the Choices Ahead' *Monthly Review*.