

Third World Debt:

***Relief... or
Credit
Crunch?***

G7 promises to “forgive” \$100 billion of Third World debt.

But who will forgive the G7?

A contribution to the campaign for cancellation of
Third World Debt

Smith

by John

Third World Debt: *G7 tightens the noose*

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Fidel Castro:

I believe that it is of decisive importance and absolutely necessary to solve the problem of the debt—and to do so without delay. The crisis is advancing and will continue to do so. It is nothing but an illusion to believe that it can be solved with mere palliatives, debt renegotiations, and traditional formulae... a few countries will get a respite, but the real causes of our difficulties won't be solved. I believe that this is the time to wage this struggle...

It is simply impossible to pay the debt. ... The immense sacrifice that would have to be demanded of the people and the blood that would have to be shed to force them to pay that immense sum of money which, to a large extent, was drained away, misspent, or embezzled would be unjustifiable...

Our peoples are not to blame for underdevelopment or for the debt. Our countries are not to blame for having been colonies; neocolonies, banana republics whose role was to produce raw materials, exotic products and fuel at low cost and with cheap labour ... The riches and well-being of which we have been deprived through the imposition of economic dependence and underdevelopment cannot even be estimated, let alone measured. It is our peoples who, by right, are the creditors of the rich and industrialised Western world.”

Interview in prominent Mexican newspaper (Excelsior) 21st March 1985

Intro

So paltry was the G7 "debt initiative", announced with much fanfare at the June 1999 summit of the G7 nations in Köln, Germany, that it is hardly worth wasting one's breath about. The IMF said 37 countries would be eligible; one year later not one has actually received anything, only five have reached 'decision point', and only two – Bolivia and Uganda – have a chance of qualifying for partial debt relief before 2001. Some Jubilee 2000!

The G7 'debt initiative' is pure propaganda, designed to deceive public opinion and distract attention from the real, but unreported, news about the debt. *New policies adopted by the G7 nations threaten to enormously intensify the nefarious effects of the debt upon the peoples and economies of the Third World and the post-Soviet "transitional economies".*

G7/IMF policy since 1982 has been founded on the principle that no sovereign nation should be allowed to default on its debts. Part of the rationale for this is that since there is no world governmental authority, international exchanges are founded on trust. If a sovereign debtor was to default on its debts, it could threaten systemic failure of the world economy, in the first place through a stampede of private capital at the first sign of crisis in a national economy. In the aftermath of the two years of crisis which engulfed what used be called Asia's 'tiger economies', the IMF/G7 have been attempting to define a new policy: they are now pressurising a number of indebted nations, on a "case-by-case" basis, *to default on their debts to private investors*. In September-October 1999, Ecuador became the first victim of this new policy, the first to default on sovereign debt to private bondholders without the IMF stepping in to plug the gap with a loan to 'bail them out'.

The consequences for Ecuador's people have been devastating. They have responded with sustained mass resistance, reaching a crescendo on 21 January 2000, when an uprising in the cities and the countryside toppled the Mahuad regime. In a 'moment of joy', a popular revolutionary government took power for several hours, before being dispersed by the military high command. These events, in an oil-rich country which is crippled by interest payments now claiming 54% of import earnings, but which is not on either the G7's or Jubilee 2000's list of countries selected for debt reduction, show the direction of the crisis and also point towards the only solution. The debtors will be their own liberators!

All debtor nations are suffering on account of the new direction in G7/IMF policy, especially those already in serious distress. Interest rates on new loans to the Third World are rising across the board, as investors price in the increased risk. Credit lines are being sharply cut back, as investors adjust their portfolios and reduce their exposure to riskier markets. Those countries which are pushed off the cliff and do default—whether it is an outright default or a forced 'voluntary rescheduling'—will be frozen out of capital markets and their economies and peoples will grievously suffer.

Behind the pretence of concern for the plight of the victims of debt, the G7/IMF are actually kicking them in the teeth. Instead of a Jubilee 2000, what we are actually going to get is the precise opposite: a Credit Crunch 2000.

This radically reactionary policy is an emergency measure, designed to shore up the world financial system before the next hurricane strikes.

This policy does not result from a belief that the world economy is more immune to default-provoked systemic risk than was thought. Far from it: they are under no illusions that systemic risk is more of a threat than ever. The new policy is being driven by the destruction of the credibility of the IMF as a lender of last resort. The world's imperialist rulers are attempting to respond pragmatically to an awesome fact: *the world no longer has a lender of last resort*. Their means of escape from the last crisis will not be available next time around.

This paper was written in November 1999, and was called "Third World Debt – G7 Tightens the Noose". In the six months since, turbulence in world financial markets has abated. For the moment, greed once again has the better of fear.

The following passages from a feature article in the 17 May Financial Times provide very useful update information on central themes of the paper. This quote also helps me to correct a false impression: when I talk of G7/IMF policy, I do not wish to imply that the G7 nations have reached consensus, that they all agree when and how to act. 'G7/IMF policy' is a euphemism. There really is no such thing as an agreed G7/IMF policy. The relations between the imperialist predators are slightly outside of the scope of this paper. Imperialist nations, under the dictatorship of the USA, maintain a united front against the oppressed and exploited nations - yet more and more their differences are coming to the fore. This fact, also, is highlighted in the following passage:

"The biggest area of disagreement is... what should [the IMF] do when the next big financial crisis strikes? In principle, there are two approaches: either an international lender of last resort steps in, offering funds for as long as the crisis lasts; or the countries in crisis could stop paying their debts.

The former option looks less and less credible. Even the \$57bn package of funding announced for South Korea in 1997 was not enough to restore confidence, and next time the amounts on offer might be even smaller. Since the Asian crisis, the rich countries have become more reluctant to pour vast amounts into bailouts....

If there is little enthusiasm for multibillion-dollar bail-outs, there is equally little support for encouraging countries in crisis to suspend payments to private-sector lenders and investors. The IMF's main shareholders are divided over a point of principle: whether there should be a clear presumption that when a country gets into difficulties, the lenders will have to suffer, too.

The Europeans, particularly France and Germany, want an explicit framework for getting the private sector to share the pain... The US, however, will countenance private-sector involvement only on a case-by-case basis.... The result is deadlock. As Mervyn King, deputy governor of the Bank of England, puts it: "In terms of private sector involvement, we haven't got much beyond the articulation of the phrase 'private sector involvement'."

...In the absence of clear rules, policy is being made on the hoof. Since the seismic shocks of 1997-98, there have been much smaller eruptions: in Ecuador, Ukraine, Romania and Pakistan. To the Americans, these recent upheavals demonstrate that countries should be dealt with case by case, rather than a "one size fits all" blueprint, and that often the private sector will end up by sharing the costs. After

some official pressure, private-sector lenders have taken part in debt restructuring in Ukraine and Pakistan, for example.

The US's critics remain unconvinced. "I would not accept that the ad hoc solutions have been acceptable or successful in any way," says Richard Porter of London Business School. The US calls the shots in the IMF, and it suits Washington's interests to decide which countries receive help and which do not on a case-by-case basis, he says. "They play Pakistan one way, Ecuador another and Romania a third, depending on what US policy priorities are."... The net result is that no-one really knows what will happen, who will be hurt and who will be spared, the next time a big country such as Korea is hit by a serious crisis." FT 17-5-00

A central conclusion of the paper was that the millennium, far from being a Jubilee year, would turn out to be 'Credit Crunch 2000'. This is a polemical way of expressing it, perhaps more appropriate for the pamphlet format which this paper first appeared in. There is nothing special about the year 2000: credit crunch was already an established phenomenon in 1999 and – beneath the fluctuations – it is deepening and expressing itself in more and more different ways in the world economy.

The FT reported on 5 April 2000 that

"International investors are still shunning capital markets of developing and transition economies, leaving foreign direct investment flows to become the single largest source of finance."

As of mid-April, the yield on the JP Morgan emerging market bond index had risen to 9% above US Treasury bonds, evidence of the worsening credit crunch. The effect on the neo-colonial economies is to precipitate further currency declines and bankruptcies; ideal conditions for the new colonisers to step in with fistfuls of hard currency and buy the place up – hence foreign direct investment flows have become the single largest source of finance. This was summed up in the title of a 22 February 2000 FT report: "Fruits of Thailand are ripe for the picking".

'Credit crunch' is a large and complex issue. From the point of view of this paper, it is necessary to distinguish between two elements: the spontaneous results of deepening depression conditions, and the exacerbating effects of the USA/G7's new hard line on debt.

An example of the latter is provided by the decision of the US government to demand early repayment of temporary loan facilities granted to Thailand; Korea and other countries. The US issued this demand at the May 8 2000 meeting of the Asian Development Bank. With this move, the US imperialists countered calls for ADB shareholders, the US chief amongst them, to inject some of their own capital to allow the ADB to expand its ability to lend. The FT reported (9 May 2000) *that "Mr [Edwin] Truman ["assistant US treasury secretary for international affairs"] said the US saw no need for a capital increase and that the ADB should increase its lending rate still further to generate additional resources."* Trying to prepare for the next crisis, the imperialists hasten it.

I am working on new material to expand the discussion of these dimensions of the debt crisis, which I hope will be available for the July conference. Any

comments, criticisms, additional information or new references on these or any other topics will be most welcome.

In addition to these central issues, there are other what seem to me (and I'm sure you'll agree) highly interesting lines of enquiry which are briefly and inadequately discussed in the paper. These include:

- the "privatisation of assets, nationalisation of debt" phenomenon discussed below;
- the golden money-laundering opportunity for narcotics capitalists presented by the world-wide privatisation/bankruptcy fire-sale (narco-dollars are reportedly a significant source of Third World nations' privatisation proceeds);
- 'flight capital', and its the impact of on the economies of both exploited and imperialist nations and what this phenomenon reveals about the relation between national bourgeoisies and their imperialist masters;
- debt and the "transitional economies"

Some words about the status and structure of the paper.

This investigation is only the first stage of an analysis. It is mainly concerned with gathering empirical data and creating of a working concept of the Third World debt as it presents itself. Precisely because the debt is a symptom of a deeper problem, a complete understanding of the debt can only be obtained through a much wider investigation, one which would have to explain the significance of unequal exchange, the connection between imperialist exploitation of the Third World and the exploitation of labour by capital within the imperialist countries, why crises are inevitable, and other fundamental questions.

Before we can depict the current phase of the crisis, we need first of all to explain what the Third World debt is and what it represents, which we do in part one; and we need to examine what happens when the IMF bails out a country faced with default, the subject of part two. The IMF's new line on sovereign debt is examined more closely in part three.

An appendix has been added which presents the concepts and proposals contained within Cuba's call for the cancellation of the Third World debt. Cuba's enormous contribution to the struggle against the Third World debt has been ignored and suppressed by both the decision makers and the opinion makers in the imperialist countries. For sectarian or opportunist reasons, both the left and the anti-debt campaigns have failed to break through the wall of silence. This section attempts to set the record straight, and consists largely of a series of luminous quotes, in particular from Fidel Castro's speeches to a series of continent-wide conferences on the debt hosted in 1985 in Havana, Cuba; arranged with a commentary by the author.

The reader will notice that a large proportion of the data and quotes are referenced from the Financial Times and other newspapers. Working full time, with political (presently to the campaign against sanctions and bombing Iraq) and family commitments, I haven't the opportunity to conduct pure research and comb through primary sources of data.

This paper is part of larger study of the interaction between the three forms of imperialist exploitation: debt, FDI, and unequal exchange; and how all three are different forms of expression of the law of value in the imperialist world economy.

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Part One: Third World Debt keeps on growing

G7 debt plan—a mouse that roared like a lion

On June 18, the 1999 summit of the G7 “leading industrial nations” took place in Cologne, Germany. A much-trumpeted achievement of this gathering was to agree a plan to deal with the debt owed by the world’s poorest nations.

Repackaging existing “aid” budgets with \$45bn new money, the G7 nations claim that the poorest nations’ debts will be reduced by \$100bn over the next five years, to a level which the G7 considers to be sustainable.

The indebted nations themselves were not represented at the Cologne summit. They had no say in decisions taken about what is, for them, a matter of life-and-death.

President Clinton called the G7 decision *“an historic step to help the world’s poorest nations achieve sustained growth and independence”*. However, the facts show that the G7 package will have a minuscule effect on the Third World’s crushing – and ever-growing — debt burden.

In 1971, the Third World debt was around \$100 billion. By the beginning of 1999, it had ballooned to more than \$2,500 billion, and is growing by more each year than the total amount owed in 1971.

From 1982 to 1990, debt servicing cost Third World nations \$1345bn.¹ Between 1987 and 1997, despite debt service payments of \$2,198bn, the debt increased by \$895bn, from \$1,451bn to \$2,346bn.² Debt servicing has been running at 7\$200bn for most of the last two decades. At gold’s current price, around \$10m per tonne, this is equivalent to 20,000 tonnes of gold per year!

The G7 claim they’ve thrown a lifeline to the poorest nations. But they’ve forgotten to hold onto their end. They are already wrangling about where the promised cash is going to come

from. Oxfam calculates that \$50 billion of debt relief, at most, will actually materialise. And who will actually pocket

What is debt?

It is highly revealing that what we call *debts*, banks call *assets*.

Debt in general is a claim on another's property. Interest-bearing debt, which can be considered the capitalist form of debt, includes another element: the debtor must return more than s/he has borrowed. Debt now becomes something more: a source of profits, a means of expanding the wealth of the creditor at the expense of the debtor.

If the nations of the Third World owe \$2.5 trillion to imperialist banks and bondholders, this means that imperialist investors have \$2.5 trillion's worth of interest-bearing assets in the Third World. To put it in a slightly different way, it means that the imperialist banks and bondholders have a claim on \$2.5bn's worth of the real assets-mines, farms, factories-in the debtor nations.

If a nation cannot service its debt, then—just like when a bank repossesses the house of a worker who can't keep up with mortgage payments—the imperialists act to repossess this nation's human and natural wealth. When this happens, property of one sort (mortgage/sovereign debt) is converted into another form (title to the house/ownership of the economy).

This process, tantamount to the recolonisation of the Third World, has undergone an enormous acceleration since the beginning of the 1990s, and is today expressed in the world-wide fire-sale of public assets and bankrupt private capitals throughout the Third World. The result is the return of the choicest economic enterprises to direct imperialist ownership and control— epitomised in the headline of an FT survey of Zambia: “‘Crown jewels’ earmarked for foreign buyers.”

this money?

*“The total debt of the 41 countries defined by the G7 as the only group in need of relief is \$207 billion. ... Of the \$207 billion of HIPC country debt, approximately \$100 billion is currently not being serviced – in the full knowledge of the IMF and World Bank, ... The total on offer in debt cancellation is \$100bn – just as much as is anyway not being paid.”*¹³

In other words, the main beneficiaries of the G7 money will not be the HIPCs, but their creditors. Thanks to the G7 money, these wealthy investors will now get their debts serviced by “public funds”, i.e. the G7 taxpayers. Here, as

elsewhere, private debt (owed by e.g. Korean capitalists to imperialist banks and bondholders) becomes public debt (owed to the IMF/World Bank by the Korean government). Nationalisation of debt, the unmentioned counterpart to the privatisation of assets, is an enormously important issue which we will examine closely later on. For now we can say that the only benefit to the debtor nations... is that they'll find it easier to borrow some more money.

Prime Minister Blair crowed *"I believe this summit will mark probably the biggest step forward in debt relief and help to the poorest countries that we have seen in the international community in many years."*

This is one of Blair's less common statements – here it is a truth which is wrapped in a deception. A decade of discussion about debt relief has resulted in zero steps forward of any consequence. Up to the G7's 1999 summit, just two countries, Uganda and Bolivia, had ever received any debt reduction. Eleven months after the devastation of Hurricane Mitch, and the G7 still hasn't agreed any reduction in Central America's crippling debt.

These facts put the G7 promises into perspective. They are enough to dispel any notion that governments in the rich nations are seriously addressing the Third World's deepening debt crisis. Even for those countries selected for the partial reduction, other adverse factors, in particular the sharp declines in most Third World export prices, will more than cancel the promised benefits.

Third World economies severely affected by falling export prices

Debt is only *a symptom of a deeper problem*. The Third World has lost, through plummeting export earnings over the past two years, far more than the G7 is offering in debt relief. *"Steep falls in commodity prices are expected to cut some developing countries' export earnings by as much as a quarter this year and to sharply reduce their output,*

according to the United Nations Conference on Trade and Development [UNCTAD]", said the FT in early 1999. The Goldman Sachs Commodity Price Index reports that agricultural commodities lost 30% of their value on world markets between late 1997 and early 1999, with metals falling 35%.

The most recent declines in Third World export prices are a sharp acceleration of a trend that is as old as the twentieth century (more precisely: as old as the imperialist phase of capitalism which succeeded the colonial era in the last decades of the nineteenth century). The decline in the Third World's terms of trade has been particularly marked since World War II. The Brandt Commission (1979) reported "*there is no doubt that there have been long periods of declining relative prices for [primary] commodities. One such period has been from the mid-1950s to the early 1970s*".

Between 1970 and 1998 non-oil commodities lost a further 70% of their exchange value.⁴ The FT editorial reporting this latter figure was neither shocked nor dismayed. Far from it: "*[the] further downward lurch in commodity prices... is very good news for the industrial world*". However, these recent falls have been a real disaster for the Third World. Their immediate results can be seen in stalled and shrinking economies across Africa, Asia and Latin America. Their longer-term consequences will be more malnutrition, more unemployment, more crises, more wars, and more rebellions.

The cumulative impact of recurrently deteriorating terms of trade is, alongside the Third World debt, an outstanding feature of the imperialist world economy. It is one of the principal ways in which imperialist financiers appropriate the wealth created by workers and farmers in Third World. It is a phenomenon known as *unequal exchange*.

IMF conditions: forced privatisation, axed social programmes

Only the 41 countries named on the HIPC list are eligible for debt relief. Jubilee 2000 analysts reckon that, by 2004, 18 of them may see their debt repayments fall by between 20% and 50% of what they would otherwise have grown to be. For these countries, the promised relief will be little more than a temporary interruption in the inexorable growth of their debt burden.

To qualify for G7 generosity, the supplicant nations have to, as the saying goes, jump through hoops. They have to prove, over a six-year period (to be reduced to three, if IMF resistance can be overcome), their complete obedience to an IMF 'Enhanced Structural Adjustment Facility', or ESAF).

This is the only recipe in the IMF's one-page cook-book. Its main ingredients are: the privatisation of any thing that can be sold; deregulation, removal of restrictions on imports, eliminating price subsidies on essential consumer goods; and a fierce compression of government spending, which inevitably means swingeing cuts in education, health-care, assistance to small farmers etc.⁵

So notorious have the IMF's ESAFs become that... they have been renamed:

*"The sinister-sounding Enhanced Structural Adjustment Facility... has transmogrified to the rather more positive-sounding Poverty Reduction and Growth facility (inevitably contracted to PRGF)... but some worry that the new emphasis on poverty is... at best a figleaf for business as usual."*⁶

David Ransom, writing in the *New Internationalist* special issue on the Third World debt, delivers a damning verdict on the G7 HIPC initiative:

"Far from dismantling structural adjustment, the HIPC Initiative actually strengthens it... No more than a handful of countries will have benefited in any way by the year 2000 -

while a great many more of the HIPC's will be even more firmly in the grip of structural adjustment than they were before.

"... The suspicion arises that [the] purpose [of] the HIPC Initiative is less to minimise than to maximise the 'sustainable' levels of debt repayment; that perhaps rich governments, their tools at the IMF and World Bank and their clients from the private banks, actually prefer debt bondage to remain in place..."

IMF/World Bank dictates have accelerated a global privatisation wave which has become a gigantic fire-sale of the semi-colonial nations' most valuable assets. A curiously undermentioned aspect of this phenomenon is the extent to which it is fuelled by the illegal drug trade. The annual value of the illegal drug trade is estimated in a recent UN study to exceed \$500bn, more than twice as large as total capital flows into the "emerging economies". IMF/World Bank policies have encouraged the drug capitalists to invest their narco-dollars in their local stock markets: into newly-privatised power stations, telephone companies, pension funds and so on. The world-wide fire sale of national assets, it turns out, is a golden money-laundering opportunity.

What is not prohibited by the IMF and World Bank programmes, in fact it is highly encouraged, *is for the debtor governments to impoverish their people in order to rescue private capital, foreign and national, when disaster strikes*—as in Mexico during the Christmas of 1994, when foreign investors pulled the plug on the Mexican economy, and the peso lost half of its value in a few weeks.

One of the consequences of the peso crisis was the insolvency of Mexico's banks. The cost of remedying—through the injection of public money to rescue private capitalists from their bad debts—has now risen to an astonishing \$93bn.

Gavyn Davies, top city economist and member of the Bank of England's Monetary Policy Committee, indicates how widespread and significant this phenomenon is:

"... 'recapitalis[ing]' domestic banking industries... involves taxing the general population to bail out bank owners, who are usually mega-rich industrial oligarchs. These transfers within the emerging economies have recently been of truly Herculean scale, amounting to 25 per cent of GDP or more..."

All of this will be considered in more detail in part two.

Third World Debt vs. National Sovereignty

*"Conditions imposed by the IMF... entail a major loss of national sovereignty. Through IMF negotiations, national governments are transformed into local enforcement agents of transnational corporations and banks."*⁷ - Ellen Frank, in *New Internationalist* special issue on debt

The Third World's debt is not only an oppressive economic burden. It also the negation of the limited national sovereignty won by the debtor nations in their advance from colonial rule to their current semi-colonial status. Conditions attached by the IMF to its 'assistance' require the government to surrender control over economic policy to committees of western bankers, and simultaneously surrender ownership of key parts of their economy to consortia of western businessmen.

Archbishop Ndungane of Cape Town in South Africa, one of Jubilee 2000's patrons, bitterly denounced the fraudulent proposals coming out of the Köln summit:

*"Indebted nations will (as a result of the Köln Agreement) now have to jump over even more bureaucratic hurdles and conditions than before, even to be considered for debt cancellation. This is precisely the form of slavery that we in Jubilee 2000 so roundly condemn... conditions, set by faceless and unaccountable civil servants in Washington... undermine democratic accountability in indebted nations, and effectively transfer power away from political capitals in Africa to Washington. ... This is a modern form of economic bondage, a form of neo-colonialism which is unacceptable to us in the Jubilee 2000 movement."*⁸

The progressive undermining of the limited national sovereignty which Third World nations have won in the past half-century of anti-colonial and anti-imperialist struggle is expressed in a myriad of ways. Here's a little tale which tells a bigger story...

"When the man who might become Argentina's next president says he wants to discuss renegotiating the country's \$140bn

*external debt with the Pope, investors are right to head for the exit... It is no wonder stocks have dropped 12 per cent in a week, while bond spreads have widened. .. After six good months, investors should perhaps play it safe and take profits."*⁹

He (Eduardo Duhalde, Peronist candidate in Argentina's October 1999 elections) retracted his words immediately.

The moral of this story? In the Republic of Argentina election candidates dare not so much as breath a word about the colossal external debt which is causing great harm to the people—or else foreign capital, which is greedily feeding off the exorbitant interest rates they force Argentina to pay on its debts (currently 12-15% above the international base lending rate), will bolt for the door and scuttle the nation's economy! What does this say for Argentina's democracy and its national sovereignty? Who rules Argentina? And Argentina is a relatively prosperous country, with a political elite which likes to think that Argentina is no longer part of the Third World.

Cuban economist and political leader Osvaldo Martinez gives a very clear definition of the role played by the debt in the subversion of national sovereignty in Latin America and, by extension, the rest of the Third World: *"Latin America has paid and is paying the debt several times over; [the external debt] serves to homogenise the region in the purest application of neo-liberalism ... it is in essence a perfect instrument of submission."*

Debt: "the permanent bankruptcy of the vast majority vis-à-vis a tiny minority"

"The Third World external debt ... is probably one of the clearest expressions of the irrationality and unviability of an obsolete international economic order... the accumulation of a debt which implies the permanent bankruptcy of the vast majority vis-à-vis a tiny minority clearly indicates [this order's] absurd and harmful nature."

- Fidel Castro

Lenin once famously stated that *"the essence of imperialism is the division of the world into oppressed and oppressor nations"*. Two years of 'contagion'—during which investor panic jumped countries and continents, leaving a series of devastated economies in its wake—has provided dramatic evidence that the world continues to be divided in this way.

In this enquiry into the Third World debt and the bigger picture it is part of, one constant theme becomes apparent. It is always the interests and wishes of the creditors, of foreign capital, which is paramount and which overrides any other interest. It is not just that the workers, farmers, youth and poor of the Third World nations are paying for the debt with their lives. The capitalist minority within these countries also find that, when it comes to qualifying for IMF protection, they and their wealth are of inferior quality. Indonesian, Brazilian and South Korean capitalists were not rescued by the IMF bail-out, just the imperialist investors in those countries. The 'emerging' capitalists and their hangers-on have to take it on the chin, with significant numbers pauperised, and mutely watch while more and more of the national economy passes out of their hands and into the hands of foreign capital.

The change in fortunes resulting from the Asian crisis is illustrated by these two contrasting news reports:

The FT (3-8-99), under the title "Outward investment by Asian groups plummets", reported that

"Overseas Chinese companies... have suffered heavy financial losses in the aftermath of the Asian crisis. On one estimate, last year saw a near-halving in the asset value of the top 500 overseas Chinese companies, whose business is heavily concentrated in the Asian region".¹⁰

On the other hand...

"The [Asia] region is enjoying an influx of capital, courtesy of foreign investors who have been buying up local businesses... overseas companies made acquisitions of \$10.7bn in the

second quarter [of 1999], up from \$4.05bn in the previous three months.”¹¹

Ellen Frank, writing in *New Internationalist*, draws a sharp conclusion:

“For the Western financial establishment... the devastated economies of Asia [are not] an unfortunate side-effect of a financial scam. They are the whole point of the game. Asia’s bankrupt businesses, insolvent banks and jobless millions are the spoils of ... ‘financial warfare’.”

The inequality between nation states is expressed in inequality between the competing capitals. It is easier to obscure this unequal relationship when the world economy is growing; however, as the last decade of the second millennia began, the capitalist world economy entered a period of depression and deflation. It is no longer a question of who gets the big slices and who gets the crumbs from an expanding cake. Competition between capitals is now about who survives and who is destroyed, about who is going to swallow whom, about *whose* assets are going to be deflated. This is why competition between capitals is the primary source of the growing world disorder, the arms race on every front, and the increasing readiness by the US and other G7 governments to use extreme military force to advance their separate interests.

The inequality between capitals was strikingly revealed by the near-collapse of a New York-based hedge fund LTCM (‘Long Term Capital Management’) in the summer of 1999. The LTCM affair was a major event in the contagion which was spreading throughout the continents of the Third World. Here, the imperialist banking system itself suffered a minor heart attack.

LTCM was borrowing money in yen, at the nugatory interest rates currently prevailing in Japan, converting the yen into dollars, and reinvesting them on the US stock market. This was known as the “yen carry” trade. For a while, investors

took away huge profits, magnified by the depreciation of the yen. Until, suddenly, the yen halted its downward slide and bounced up 10% in a few days. This suddenly increased LTCM's liabilities, and in fact rendered it technically insolvent.

The LTCM scam involved a double dose of speculation—speculating on exchange rate movements, and speculating on the US stock market. And the participants included some of the most illustrious US and North American banks.

New Internationalist contributor Ellen Frank commented:

"When the Federal Reserve Bank (the 'Fed') last September arranged a \$3.6 billion bailout of Long Term Capital Management (LTCM) – a Connecticut-based hedge fund – critics of the US financial establishment cried foul. The bailout contrasted strikingly with IMF treatment of indebted firms in Asia. When indebted businesses in Asia were unable to repay foreign loans, US and IMF officials insisted that they be forced to close and their assets sold off to creditors. Bailing out ailing businesses with endless lines of bank credit was, US officials claimed, the essence of 'crony capitalism' and the cause of all Asia's problems.

"...To Japanese officials, the LTCM bailout was a clear case of the US 'ignoring its own principles'. ... [but] where bailouts are concerned, there is only one standard. Whether in Korea, Thailand, Connecticut or Brazil, US- and IMF-organised bailouts conform to the same guiding principle: whatever happens ... the wealth of Western creditors must be protected and enhanced."¹²

One perverse effect of this relation of inequality between capitals is *capital flight*. Capital flight is when capitalists in the Third World (or would-be capitalists in the former Soviet-bloc countries) expatriate their wealth, convert it into US dollars or another hard currency, and reinvest it, perhaps even in the sovereign bonds issued by their own government (but denominated, of course, in dollars). Capital flight drains colossal quantities of wealth from the poor nations—for

many countries, the wealth lost through capital flight exceeds their debt. It is enormously encouraged by two factors: when a Third World currency loses value against the dollar, the wealth of the flight capitalists is protected from devaluation; when a Third World country defaults, the IMF will bail them out. In this situation Third World capitalists would be crazy not to take their wealth out of their own country and put it somewhere safe.

The IMF and G7 governments are strangely unperturbed by this phenomenon. One reason is the beneficial effects on their own economies of the arrival of billions of dollars of flight capital, bidding up asset prices as the flight capitalists pile into western stockmarkets, real estate etc.

But there is a deeper reason. What is the difference between flight capital and the repatriated profits, interest receipts etc. which the imperialist investors themselves take out of the underdeveloped economies? Both have one and the same source—the exploited labour of workers and farmers. The only difference is the nationality of the owner. The possibility of capital flight is a form of compensation to the Third World capitalists; it allows them to put their snouts into a trough which is always full; to protect their individual fortunes while their peoples are impoverished. It is the pay-off, part of the deal, part of the unwritten contract which defines the relation of subordination and interdependence between the imperialists and their local allies.

Despite their antagonisms and internal conflicts, the G7 nations maintain a permanent united front against the debtor nations. If there are differences between them, they arise from the efforts of each imperialist power to protect its own banking empire first, and the world banking system second. Their mutual interest in perpetuating the exploitation of the Third World—to satisfy their hunger for profits and to prevent new competitors emerging—means that only tactical differences can be discerned between them, and that all

efforts to persuade them to adopt a more enlightened policy are doomed to failure.

On the other hand, the governments and the ruling families of the Third World have failed to forge a united front of debtor nations. They have allowed themselves to be divided in the same way that a set of skittles are divided by a ball. They have failed to protect the elementary needs of their peoples. They have lost the right to rule.

Part two: IMF bail-outs: who is bailing out whom?

Privatisation of assets, nationalisation of debts

Top city economist Gavyn Davies made this evaluation of recent IMF bail-outs in the Independent, 16 November 1998. He states:

"...it is clear in retrospect that the allocation of IMF funds to [South] Korea last year had the effect... of bailing out the western banking system. International money sent to Korea was immediately used to pay down foreign bank debt which would otherwise have been subject to a very high risk of default. ... Typically... [western] taxpayers have no idea that their money is being spent in this way... the most direct beneficiaries are the shareholders of Western banks... this transfer from the general taxpayer to the bank shareholder almost certainly implies gains by the rich at the expense of the poor... which is perhaps why governments are generally at pains to disguise these effects of IMF programmes".

Martin Wolf, senior FT economist, added:

"the afflicted countries have succumbed to deep recessions, while the value of foreign investment in real assets has plummeted. But international rescue operations have helped short-term lenders escape virtually unscathed. This must be the worst possible outcome. The result is likely to be a malign shift in international finance, from equity to debt, from long-term to short-term debt and from domestic currency to foreign currency debt... A financial system in which it is destabilising short-term lenders who are saved and everyone else suffers, some bitterly, is a recipe for repeated and unacceptable catastrophe" ¹³

While 'western taxpayers' dig deep to bail out the imperialist investors, working people in the debtor nations are faced with even more extreme demands. Declining exchange rates

and shrinking economies make hard currency debts loom larger-for instance, Indonesia's debt has zoomed from 26% of GDP to 110% of GDP in just three years!¹⁴ Economic recession also causes an explosion of bad debt within virtually all Third World economies. On top of this, Third World governments have come under enormous pressure from their imperialist creditors to take responsibility for the hard currency debts which their bankrupt private sectors are unable to repay. To avoid collapse of their banking systems, Third World governments have nationalised billions of dollars of privately-held debts, and footing the bill by extorting huge quantities of cash from their already impoverished populations.

Gavyn Davies comments "... 'recapitalisation' of domestic banking industries... have recently been of truly Herculean scale, amounting to 25 per cent of GDP or more... Why have these bank losses recently become so extraordinarily large?... It is hard to avoid the conclusion that the massive growth in international bank lending from the OECD economies to the merging world has been central... in the Asian crisis economies, foreign bank debt had grown to 25 to 45 per cent of GDP just before the storm broke. And it is hard to escape the conclusion that Western banks were willing to take on such huge exposures partly because they expected IMF help to be available in case of problems. The 1995 Mexican bailout certainly encourages this belief"

The relationship between the ubiquitous debt crisis and the endemic banking crises is highlighted by the collapse of the Mexican peso, which began when private investors stampeded out of the Mexican economy during Christmas week, 1994.

Mexico's total external debt, owed by the government and by private individuals and enterprises, grew from \$86bn in 1986 to \$165bn by September 1994. Around two-thirds is owed by the government ('sovereign debt'), the rest by private Mexican capitalists. *"In September 1994 Mexican government debt equalled 47% of GDP. One of the major consequences of*

the peso collapse was that overnight this ratio shot up to over 70%.”¹⁵

But this is not all. Mexico's capitalists have borrowed heavily in order to finance their attempts to modernise and expand. Like their ilk around the world, they have had too many drinks at the casino, and have borrowed heavily to finance speculative investments of all kinds. The destruction of a significant part of the wealth of Mexico's capitalists, a major outcome of the peso collapse, led to a huge increase in bad debts, threatening a collapse of Mexico's banks and also a further fall in bond prices as large numbers of wealthy Mexicans tried to turn their government bonds into money. Guided by the US Treasury, the Mexican government found a way out of the crisis: it assumed, on behalf of the Mexican people, a gigantic quantity of bad debts owed by Mexico's capitalists:

“In spite of pledging some 20 per cent of GDP to rescue the financial sector, [Mexico's] banks are still in a fragile state... this month the government finally admitted to the size of the bill... it said the cost had spiralled to \$93bn... [this] intractable problem [has] huge financial and political costs for a country with pressing needs in areas such as education, health and poverty relief.”¹⁶

The Mexican government quite literally nationalised the debts of Mexico's capitalists. The banks themselves were temporarily nationalised, cleansed of their bad debts, then given back to their rightful owners. The IMF and US Federal Reserve, of course, had absolutely no problem with this policy. But woe betides any Mexican government which would ever undertake to nationalise the capitalists' assets.

Despite spending several thousand dollars per Mexican household rescuing the bad debts of wealthy Mexicans (or, more accurately, the assets of their imperialist creditors), Mexico's financial crisis is getting worse. On 22 July 1999, an FT editorial made a sombre assessment:

"Credit has been contracting continuously since the peso crisis of 1994. Unless banks become stronger business will continue to find it difficult to borrow, limiting Mexico's economic growth and undermining its ability to challenge deep-seated social problems."

The nationalisation of private debts is as much a part of the IMF recipe as the privatisation of public assets. David Ransom and John Hanlon, in their articles in the *New Internationalist's* special issue on debt, indicate just how widespread this phenomenon is:

"In 1973 ... a military coup in Uruguay ... ushered in a very nasty little dictatorship that for a while imprisoned proportionally more people than anywhere else on earth. ... Powerful people who owed large sums of money to international banks were facing ruin. So the generals decreed that it was 'in the national interest' to bail them out by borrowing ... in the name of the Uruguayan people. ...

"This combination of dictatorship, foreign loans and the transfer of private liabilities on to public backs ... pervaded Latin America ... similar, too, was the experience across Africa and Asia."

"The corruption of Philippines' dictator Ferdinand Marcos and his wife Imelda is legendary. Estimates are that they and their cronies pocketed a third of all loans to the Philippines in the form of kickbacks and commissions. Their personal wealth was estimated at \$10 billion. When President Aquino took over, rather than insist that Marcos repay the money, the IMF said the Filipino Government should be responsible for the debts of private corporations, that taxes should be raised and that the rice subsidy should be ended as a way of raising enough money to repay the debts."

Indonesia provides yet another example of this: to 'restore their economy to health', the financial markets expect the Jakarta government to recapitalise Indonesia's bankrupt private banks with \$55bn of public funds, a figure likely to

be raised still further, in order to rescue them from private sector debts gone bad.

Privatisation of assets, nationalisation of debts can be seen in other ways, as well...

Since foreign direct investors tie their fortunes to the fate of productive enterprises within the host economy, their investments are considered to have a reliable, long-term and stabilising effect on the economy, in contrast to the wildly fluctuating, destabilising ebbs and flows of money capital. This, at least, is the theory.

But things are not as they seem:

"infrastructure privatisation has turned into a "horror story" in Asia in the wake of the regional economic crisis, a senior World Bank official [Jean-Michel Severino, head of the WB's Asia-Pacific region] has admitted... A particular problem is Indonesia, where PLN, the public sector utility, is engaged in contract renegotiations with some 27 private power contractors, because the financing assumptions in the original contracts were wrecked by the devaluation and the slump in demand. "there will be a huge cost for the government. There is no way the company can pay," Mr Severino said" ¹⁷

This is a very revealing tale. It shows several things: publicly-owned assets were privatised, but the liabilities, including future liabilities, remain in the public sector. Foreign investors in Indonesian equity contrive to be in this world but not of this world, investing in Indonesian electricity ...but not in Indonesia. And Mr Severino's comments indicate that the World Bank exists to ensure that this situation will continue into the future.

David Ransom of *New Internationalist* comments:

"[it is] ironic that this, the most colossal of all 'nationalisation's', should have passed by unremarked and at a time when 'privatisation' was an article of economic faith."

Part three: Credit Crunch 2000

The real news from the G7 summit: US/IMF change policy on sovereign default

“For the first time in its 55-year existence, the International Monetary Fund is acquiescing in a country’s decision to default on its debts to the international bond markets”

“What the IMF and the US are doing is tearing up a central plank of US foreign policy to Latin America, and emerging markets in general... the US [is] now encouraging emerging markets to default on their private sector debts.”¹⁸

The G7’s sop to Jubilee 2000 has been devised in the aftermath of “contagion”– two years in which collapsing economies in Asia threatened to precipitate a world financial meltdown. So far, the G7 club of imperialist powers has succeeded in confining the worst effects of contagion to what they still term without irony the “emerging economies”. Behind the HIPC debt reduction hype, the G7 powers are responding to contagion by adopting a harder line than ever on the Third World Debt.

Since the onset of the debt crisis seventeen years ago, a premise of World Bank/IMF policy has been that sovereign nations cannot be allowed to default. To this end, they have acted as “lender of last resort”, loaning enough money to enable the debtor country to pay off its creditors. *Recently, however, the IMF has told a number of severely indebted nations to default*, threatening to suspend its own preferential loan facilities if servicing private sector debt causes them to exceed “agreed” budget deficit targets. After years of regarding sovereign default as an act of extremity that would imperil the entire world finance system, the IMF is now using the threat of sovereign default as an active policy instrument. Pakistan, Romania and the Ukraine are among

those reported by the FT to be under pressure from the IMF to follow the course of default.

Ecuador, however, is the first real test:

"Ecuador... is emerging as the latest battleground between private and official lenders clashing over who holds the responsibility when a country is unable to pay its foreign debt. A default or forced restructuring of Brady bonds¹⁹ would be the first for this kind of debt.... Ecuador's finances are reeling from a protracted downturn, stagnant oil prices and unrest over the government's austerity measures.... The massive debt burden [around half of which is in the form of Bradys], costs Ecuador 42 per cent of its budget to service... Private creditors have warned that any failure to meet foreign debt obligations would only aggravate defaulting nations' woes by cutting off future lending. But so far the debate has remained largely localised [because Ukraine etc are so marginal to the world economy]. In Ecuador's case, however, there is evidence that a default or restructuring could have far-reaching consequences for other emerging markets... " ²⁰

In a feature article, Financial Times capital markets editor Richard Luce brought this fraught question into even sharper focus:

"Ecuador is not used to occupying the limelight. But the small Latin American country's decision last month to suspend interest payments on more than \$6bn worth of Brady bonds has had unprecedented and potentially far-reaching consequences.

For the first time in its 55-year existence, the International Monetary Fund is acquiescing in a country's decision to default on its debts to the international bond markets....

"Many western investors ... see approval of the default as a sign that the IMF and western governments have radically altered their policy on how to tackle the financial difficulties of emerging market economies. Particular concern has been raised over the willingness of Venezuela to meet its

international obligations since the instalment of a new government this year. ...

"What the IMF and the US are doing is tearing up a central plank of US foreign policy to Latin America, and emerging markets in general," says Jerome Booth, head of research at Ashmore, an emerging market investor. "The US used to view debts to the private sector as sacrosanct. But now they are encouraging emerging markets to default on their private sector debts."²¹

The changing structure of the Third World debt

When the debt crisis broke out in 1982, over 90% of Latin America's debts were in the form of loans to consortia of imperialist banks. In 1990s, this picture has radically changed. Bond debt now exceeds bank debt. It also vastly exceeds investment in the emerging stock markets:

“Despite the growing resort to privatisation, the emerging markets of Asia, South America and eastern Europe raised \$116.7bn last year through loans and bonds compared to \$18.4bn in equities, equivalent to 13.6 per cent of the total...”¹

How do bonds differ from conventional bank loans?

Bank loans: investors place their money in a bank who turn it into capital by putting it out to work, lending it at interest or directly financing their own investment, as in loan finance for a gas pipeline.

Bonds: the bank collects a fee for setting up a direct contract between the provider of loan capital and the debtor nation or company. Bonds are called ‘fixed-income’ securities, because they guarantee the bondholder a constant stream of payments over a specified period, which could be months or decades. Imagine a bond which costs £10 and guarantees a payment of £1 per year. The initial rate of interest is therefore 10%. If the rate of interest was to rise to 20%, then a £1-per-year payment stream could be purchased for just £5. This rise in interest rates therefore implies a loss in the value of the bond, and the bondholder would receive less than £10 if he sold the bond before maturity. On maturity, he will receive his £10 back, and will only lose if this £10 is in devalued local currency. For this reason, imperialist investors oblige Third World countries to issue bonds not in their own national currencies but in dollars, yen, or euros. This completely protects both the value of the imperialist's investment, and of the stream of interest payments, from currency devaluation in the debtor country.... Except in the case of default.

Why have they taken this step?

In the corridors of power there is concern, and in the semi-colonial nations there is consternation, at the fact that the hundreds of billions of dollars which the IMF has spent “rescuing” debtor countries has actually been spent rescuing the speculative investments of private banks and individuals from the imperialist countries.

The IMF is supposed to protect the world economy from 'moral hazard', instead we find that the IMF itself is the major source of infection. The IMF now says it wants to find a way of 'curbing risky lending practices' by forcing private investors to bear some of the losses if things go wrong.

Edward Luce continues:

"Leading officials and politicians in the G7 countries and IMF ... argue that crises are fuelled and exacerbated by "moral hazard" - the belief that the private sector will be bailed out by the IMF if a country is threatened with bankruptcy. Western banks and investors in emerging market bonds thus tend to compete with each other to lend to higher-yielding emerging market governments and banks, secure in the knowledge that their exposure is in effect underwritten by the IMF.

Officials cite as evidence the Mexican "Tequila" crisis of 1995 when Mexico repaid its western creditors in full with the help of a \$50bn package led by the IMF. Another example is the \$43bn IMF-led loan to South Korea in December 1997, which again resulted in full repayment of creditors - although western banks were compelled to extend the maturity of their debts."

The last point that Edward Luce makes here is that 'banks were compelled to extend the maturity' of their loans... but bondholders got all their money back immediately. This differential treatment is the source of anger and recrimination amongst the different factions of the 'investment community'.

"The chances that a number of leading emerging market borrowers will be compelled to reschedule their international bond debts have risen sharply... with both the US government and the IMF repeating calls for such a move.... At present, international bonds are seen as an almost sacrosanct asset class exempt from the conditions which are applied to private and public sector loans... Bond market representatives are strenuously opposing the suggestion..."

[they] say the measure would increase the “risk premium” of emerging market debt and thus price many countries out of the market.... But others say the move... could have a salutary effect on the weaker countries by pricing them out of a dangerous and volatile market. “What you have at the moment is a situation where the IMF or the Paris Club reschedules a country’s debt and the country promptly uses the new resources to meet its euro-bond payments,” said a G7 official”²²

The aim of the ‘central monetary authorities’ – i.e. the G7 governments acting through the IMF and World Bank – is not so much to force the indebted nations into sovereign default, but to use extreme financial pressure to force both them and their creditors to agree a ‘voluntary’ restructuring of their debt obligations.

Private creditors, for their part, are also threatening these governments—warning that compliance with the IMF will cause them to be frozen out of international capital markets. In other words, the indebted nations are being used as a football in a contest between the IMF and a section of private imperialist finance capital.

The IMF aim of “pricing weaker countries out of a dangerous and volatile market” might sound like a good idea, but the effect is like halting blood transfusions to a haemorrhaging patient... while doing nothing to staunch the haemorrhage itself.

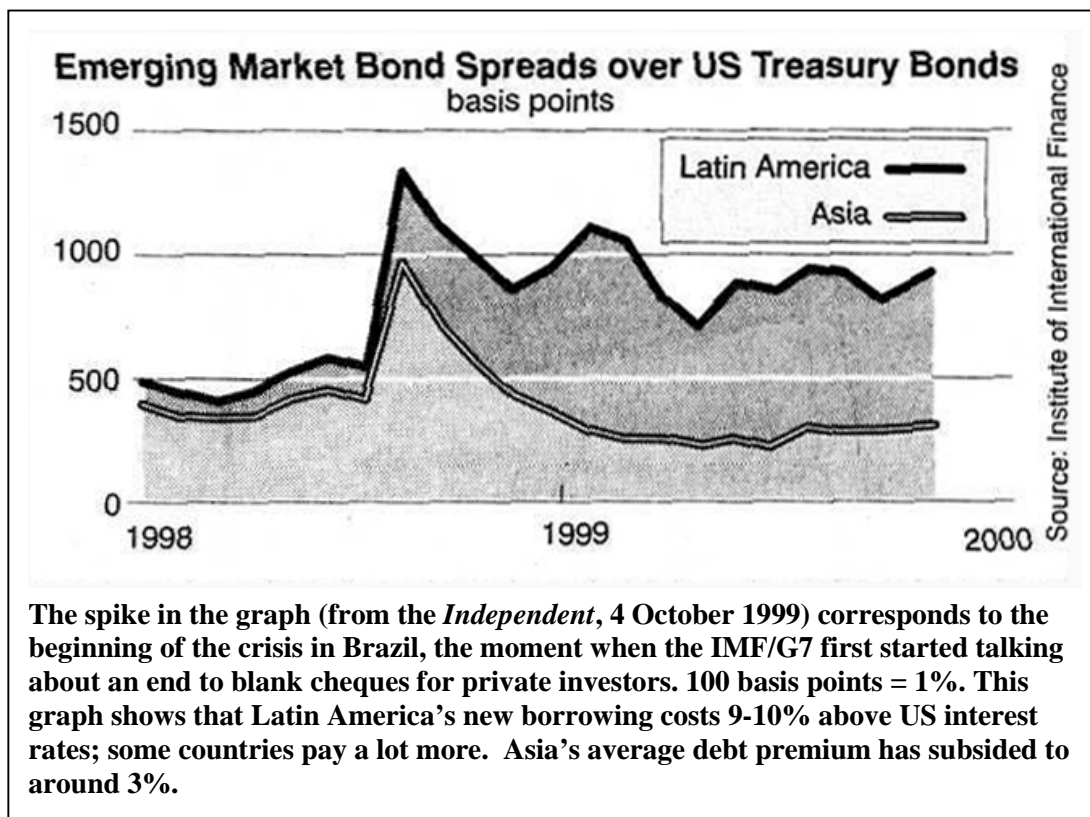
Ecuador, meanwhile, is on the floor, and private investors are preparing to give it a good kicking:

“Holders of Ecuador’s Discount Brady bonds are poised to drag the government into a costly legal battle over its failure to pay interest, dimming hopes the country will resolve its financial crisis... potentially spurring defaults on its other bonds. Investors fear Ecuador’s [actions]... could set a dangerous precedent for much larger stocks of Brady Bonds they hold from countries such as Brazil, Mexico, Argentina

and Venezuela. "We're willing to make it messy in Ecuador even at the expense of what we recover from the government", said an investor... "we want these countries to understand that ... default hurts"

"Analysts said Ecuador's other sovereign bonds would ... become eligible for acceleration [25% of bondholders can force immediate repayment of the bond in full, this is known as 'acceleration'], which could lead to widespread default and prolonged litigation"²³

For the debtor nations, the new IMF policy amounts to putting them even more at the mercy of their creditors. One already-discernible effect is the rise in interest rates, as private speculators 'price in' the increased risk of lending to Third World countries. Nothing could be calculated to aggravate the debt crisis more than a rise in interest rates, yet this is the direct consequence and even intention of the



new G7 policy.

World economy: too big to fail?

"Ecuador is the first genuine case to arise since burden-sharing was first suggested by the G7 last year. It is also the first crisis-hit country with a large proportion of private-sector debt. Who will be next? Pakistan and Romania have so far resisted pressure from the IMF and the Paris Club of official creditors to restructure their eurobond debt... many in the bond markets believe some countries are too big to be allowed to fail, owing to the likely knock-on effects on the world's financial system..."

"The market wants the IMF to clarify what its policy is on these questions," says Jose Luis Daza, chief emerging market economist at J.P. Morgan in New York. "But it is difficult to escape the conclusion that the bigger the country the less likely it will be allowed to go bust."²⁴

The IMF did actually float the idea of private-sector participation in the negotiations which led to the 1998 "rescue package for Brazil". Its resolve was found to be sorely lacking. The suggestion that private creditors should put even a token amount of their own money into Brazil's rescue threatened to provoke a stampede of private investors from all emerging nations. The idea was quickly dropped, and in November 1998 the US/IMF put together credit lines of \$41bn of 'public money', in an effort to defend the Real's unsustainably high dollar exchange rate. A press report describes the terms of the rescue:

"Much of the financing has been provided at relatively high rates of interest... of the [\$18bn] IMF money, more than \$12.5bn will [charge] interest rates at 3 percentage points above normal IMF lending rates and increase over time. Despite widespread concerns that such programmes have in the past been used largely to pay off private creditors, they have not been explicitly included in the deal. Brazilian officials have been worried that the prospect that private sector banks might be forced to contribute could encourage them to head for the exits..." FT 16/11/98

A partial devaluation at the time of the “rescue” would have made sense, but holders of Brazilian bonds would have seen their assets decline in line with the devaluation. In order to calm nerves —a Brazilian economy disaster, it was feared, could burst the Wall Street bubble and precipitate a world slump—the IMF gave the private creditors everything they wanted. *“The private sector has contributed nothing. This runs counter to the demands for burden-sharing between the private and public sectors that emerged from G7 governments during last month’s [1998] annual meetings of the IMF and World Bank... Many officials in the G7 were concerned that IMF-led bailouts were merely pumping in public money to pay off private speculators, whose greed and panic were the fundamental cause of the crises. ...However... foreign lenders, anticipating they would be forced to take losses on their loans or to lend even more money – started pulling out... increasing the prospect of a financial crisis. Only when they were assured by Pedro Malan, the finance minister, that participation would be voluntary did this erosion of bank credit lines begin to slow.”*²⁵

The “rescue” lasted two months, during which time the bond speculators were able to get their money out intact. In January 1999 the Real did crash, halving in value in a few weeks, but only Brazilians got poorer, and the world economy was saved.

Credit Crunch 2000

The new G7/IMF policy has aroused a storm of criticism. William Brady, former US Federal Reserve chief, stated *“has the IMF really thought through the consequences of what it is doing? The multilateral institutions have nothing like the resources that would be needed to replace private sector capital flows.”*

According to Charles Dallara, spokesperson for a federation of 300 investment banks, *“over the past 10 years, private investors have provided \$1,700bn to major emerging market*

economies, compared with \$320bn from all official sources. Without these private flows, emerging market growth and global growth would have been lower"²⁶

For Brazil and the rest of the debtor nations, debt has been an aggravating factor in the eighteen months of turmoil touched off by August 1997 devaluation of the Thai Bhat. It helped cause the crisis, and it has been made worse by the crisis. The crisis has had the twin effects of plunging more of the entire Third World than ever into recession at the same time as imposing a sharp increase in debt servicing costs. If the press were to ever talk about it, they would call it a 'double whammy'.

Increased debt servicing partly results from the trend over recent years for loans to become more and more short-term. When these 90-day, one-year or two-year bonds become due, the debtor nations are finding it very difficult to obtain new finance. Net transfers from the debtor nations to the creditors therefore increase, and this is before we take the rise in interest rates into account.

Some of this is brought out in the following news report, shortly after the collapse of the Brazilian Real. *"Brazil's biggest private sector banks and companies are having to pay billions of dollars in foreign debt because the international banks that arranged the loans, mostly*

Collapsing currencies, exploding debt

Effects of a Third World currency collapse:

it magnifies the hard currency denominated debt.

It makes all assets in the devaluing country cheaper to possessors of hard currency.

It results in an export boom, as exporters purchase labour and materials at local prices while selling for dollars; and a collapse in imports, all of which become suddenly much more expensive. This helps produce a positive trade balance, essential if the debt is to be serviced.

A period of price inflation caused by the increase in the cost of imports partially reverses the effect of the devaluation.

The ultimate 'success' of the devaluation is determined by how far real wages and farmers' incomes have been left behind once this process works through.

*eurobonds, during Brazil's boom years of the mid-1990s are refusing to renew the loans".*²⁷

This picture is repeated across Africa, Asia and Latin America: *"Net lending from private creditors [to all 'emerging markets'] plunged to \$38.6 billion last year [1998] from \$196.1 billion in 1996... this year, private sector lending is projected to halve again to just \$17.4 billion – and \$12 billion of this is interest arrears..."*²⁸

FT economist Martin Wolf notes:

"A turnaround in short-term capital flows of th[is] magnitude... will inevitably result in mass bankruptcies as loans are withdrawn, the currency collapses and the economy contracts."

The new IMF policy is accelerating and intensifying this trend:

*"The IIF [representing private imperialist banks] argue that part of the reason for the continuing withdrawal of funds is the fear that the G7 and IMF will impose unfair forms of burden sharing on private sector lenders..."*²⁹

It remains to be seen what will be the outcome of the battle of wills between the world monetary authorities on the one hand, and the international bondholders on the other. One thing is certain: neither party has a solution for this problem. The latest situation—as of the time of writing, October 1999—was gloomily assessed by Mervyn King, Deputy Governor of the Bank of England:

*"We have the worst of both worlds. The IMF may lend large amounts, create moral hazard in doing so, and still not be able to ward off the threat of financial crises. And faced with a run on their currency or banking system, countries may be forced to take unilateral action to suspend payments."*³⁰

Independent economics editor Diane Coyle reinforced the picture of impotence and drift among the world's 'monetary authorities':

"...reform of the 'international economic architecture' has made steady progress in all areas but one. On one issue—how to involve private sector creditors in the resolution of future financial crises—there has been scant progress... Stung by the taunt that the IMF's phone number had become '1-800-BAILOUT', the Fund and G7 governments want to ensure that in future private sector bondholders are 'bailed in' and suffer their fair share of the losses during a crisis.

"... countries in trouble have to perform somersaults to repay bondholders and bank loans. The alternative, default is catastrophic because it causes new credit flows to dry up precisely at the moment when they are most badly needed....

"The matter is coming to a head now that Ecuador has defaulted on its debts... how it plays out carries important implications for more serious cases in the future... So far, it is looking messy... there is no clear indication yet from the Fund about how it plans to proceed... other potential defaults are looming ... The IMF concluded in a paper published last week: "We are at an early stage in this evolving policy".

"Unfortunately, the problems first emerged in late 1994, and the solutions do not seem to be evolving all that fast."³¹

After all that has passed, what has the Third World done to deserve a credit crunch?

And in the midst of widespread signs of just this, what does the G7/IMF do? It adopts a policy aimed at driving up interest rates and curtailing the flow of credit! It adopts a radical and dangerous policy of forcing indebted countries to default!

The real G7/IMF policy is the diametric opposite of debt reduction, debt forgiveness, debt cancellation.

And in charge of implementing this brutal new policy, on a "case-by-case" basis, is UK Chancellor Gordon Brown, recently (October 1999) appointed to head the IMF's key Interim Policy Committee, a main function of which is to manage 'emerging market crises'. He goes into his new job with a reputation enhanced by the compliments and applause which

some misled, misinformed, or easily fooled opponents of the debt have heaped upon him.

It's a terrible fact, but the new Millennium is shaping up to be the very opposite of a Jubilee 2000.

Indonesia's debt crisis.

*"... In Indonesia real wages are forecast to fall by between 40 and 60 per cent over the first year of the crisis; the proportion of the population falling below a poverty line of a dollar a day is forecast to jump from 7 to 16 per cent."*³²

*"Infant and maternal mortality had risen sharply, while more than half the children under two across Indonesia were believed to be malnourished, hampering brain growth at a vital stage"*³³

Indonesia, the poorest of the crisis-affected Asian countries, was also hit the hardest. Outside of war or civil war, nowhere in the last half-century has suffered an economic collapse of such severity. Indonesia owes \$80bn in sovereign debt, which *"principal repayments... are expected to total \$5bn in financial year [April 2000—March 2001] and rise sharply in future years"*³⁴. But this is only part of the story: the private sector owes at least \$50bn in hard currency debt. Their desperate situation is brought out in the following report: *"A recent World Bank study estimates that, as of the end of June [1999], nearly two-thirds of Indonesian companies were unable to generate enough cash to cover their interest obligations. The equivalent for Korean, Malaysian and Thai companies was roughly a quarter..."*³⁵

Finally *"the government is also incurring large amounts of domestic debt through its issue of bonds to recapitalise domestic banks. Estimates of the total cost of bank restructuring range as high as \$90bn, and only a small portion of that is thought to be recoverable through the sales of assets taken over by the government."*³⁶

In 1996, Indonesia's debt stood at 26% of GDP. Three years of zooming debt and collapsing production has raised this ratio to 110%.³⁷ Standard&Poor's, the US rating agency, has given Indonesia one of the lowest credit ratings in the world—'CCC', which means way below junk bond status. Naturally, an extremely low credit rating means extremely high interest payments.

The connection between Indonesia's debt and the great poverty and underdevelopment afflicting most of the 200 million people who live there is inescapable.

There is also a connection, only slightly less obvious, between Indonesia's crushing debt burden and the barbaric violence of its rulers, recently on shocking display in East Timor. Quite simply, the Jakarta regime is the IMF's enforcer. Unable to retain direct colonial rule over that country, the imperialist powers have continued to rule indirectly, through a political and military alliance with Indonesia's ruling families. The staggering debt burden helps cement the master-servant relationship between the imperialists and their protégé regime in Jakarta.

It is an outrage that the G7 does not consider countries like Indonesia—or Brazil or Ecuador or Argentina, to name some of the countries whose plight is discussed in this article—for debt relief. *Any attempt to divide debtor nations concerning their right to debt cancellation should be rejected.*

The necessity for Indonesia's debt to imperialist banks to be cancelled is underlined by events in East Timor. Cancel Indonesia's Debt! is a call for an end to the imperialist interference and exploitation which is at the root of Indonesia's problems. Yet liberal opinion in the imperialist nations has been quick to call for the IMF to threaten to withhold its \$45bn "rescue package" unless Jakarta implements East Timor's independence.

Such calls lead in the opposite direction. These calls legitimise the debt—turning what are chains of oppression

into a viable policy option. Using the debt to strangle Indonesia's rulers into submission allows the Jakarta government to portray itself as the defender of Indonesian sovereignty, when in fact it represents what Latin Americans call the *vendepatria*, those who have sold their country. Worst of all, they concede the imperialists' right to give orders to the subject nations, and even help prepare the ground for their military intervention.

Calls for Indonesia's debt to be withheld are also naïve. On 7 September 1999, BBC Radio 4's Six o'clock News reported that *"the IMF's bail-out of Indonesia was not designed to rescue the Indonesian economy from recession... but to save western banks from the threat of bankruptcy. This is why western governments are reluctant to use the debt to put pressure on Jakarta"*.

Since no IMF money ever got to Indonesia, it just crossed the street, calls for the IMF to suspend its "economic assistance" to Indonesia is more likely to destabilise western banks and markets than influence events in East Timor.

Jubilee 2000

The Jubilee 2000 coalition is currently leading international protests calling for partial debt reduction. The idea of a Jubilee 2000, that is, that Third World debts should be cancelled to mark the millennium, is excellent, and has struck a chord with millions of people.

However, there are problems with treating the debt—which is by nature a symbol or a symptom of a much deeper problem—as a single issue, separate from the other dimensions of exploitation and subjugation. Neither is it logical to arbitrarily exclude the political dimension from the campaign, in the name of a purely moral and humanitarian approach. This can all too easily become an excuse for not confronting the political issues posed by the debt crisis.

We can wholeheartedly agree with powerful denunciation of the G7 proposals made by Archbishop Ndungane of Cape

Town (see p17), and yet not go along with the warm welcome given to these same proposals by Jubilee 2000 UK's Ann Pettifor, who was quoted in a Jubilee 2000 press release saying:

"The G7 have made great strides since their meeting in Birmingham last year. If they continue at this pace, then we will achieve our goals in the year 2000. We congratulate the millions of people around the world that have made this happen. 16 countries will have their debt payments significantly reduced. But many other poor countries gain nothing" (from Jubilee 2000 press release issued at the conclusion of the G7 summit)

Only by setting exceedingly modest goals could the G7 decisions be judged "great strides". Third World Debt totals \$2,500bn, yet Ann Pettifor reports that *"Jubilee 2000 Coalition UK believes that at least 52 countries have unpayable debts of \$370bn."* Does this mean that Jubilee 2000 considers the rest to be payable?

The \$100bn offered by the G7 is around half of the total \$207bn debt of the 41 countries on the HIPC list. This caused Bono to declare that the G7 have climbed "half-way up Everest".

If he looked up he would see the real mountain.

The international Jubilee 2000 coalition held its first international conference in Rome on 15-17 November 1998. According to its press release, the 38 national movements and 12 international organisations present

"united in the call to cancel the following debt:

- *Debt that cannot be serviced without placing a burden on impoverished people,*
- *Debt already paid in real terms,*
- *Debt for improperly designed policies and projects,*
- *Odious debt and debt incurred by repressive regimes,*

- *Apartheid debt of South Africa and apartheid-caused debt of neighbouring states, and*
- *Total debt of Honduras and Nicaragua, because of devastation caused by Hurricane Mitch.*

A Jubilee 2000 press release also stated:

"The conference took a strong stand on conditionality, ... a general rejection of structural adjustment and other conditions imposed by creditors. It said creditors should not be able to set conditions for debt cancellation...."

The international coalition seems to be calling for a lot more debt to be cancelled than Jubilee 2000 UK. Practically the entire Third World debt is covered by the various categories of debt whose cancellation was demanded by the Rome conference.

Joe Hanlon, of Jubilee 2000 UK, reflected in a speech:

*"In the past couple of years Jubilee 2000 has become much broader than its original church base... Jubilee 2000 now exists in more than 50 countries and the movements in the South are really radical. This is where the push is coming from for the Jubilee 2000 movement—from the people in the debtor countries."*³⁸

In a 'live, on-line debate' hosted by the Guardian at the time of the Köln summit, Ann Pettifor gave a good example of the difficulties debt campaigners can get in to if they only call for some (in fact a small fraction) of the debt to be cancelled.

"Q: ... what I have found is that the coalition is not actually anti-debt. Contrary to popular wisdom the Jubilee 2000 coalition does not call for the abolition of third world debt, but merely the UNPAYABLE debt..."

A: You're right, we're not calling for the total cancellation of all debt. Some countries can afford to pay some of their debts. Countries like Brazil could pay a lot more if only they taxed their rich. Although we think that Brazil's foreign debts are a real burden on her people, and that she probably

does need help, we're also aware that her economy is very badly skewed, and that if wealth was distributed more fairly, then the burden would not fall so heavily on the poor. ... However, we do think that there's a group of about 20 countries that do need total debt cancellation, 100%, and more.

The past century of capitalist development in Brazil has left deep scars, gaping wounds in fact, on Brazilian society and environment. To stop the accelerating destruction, and to begin to heal these wounds, Brazil needs every penny of the billions of dollars in interest per year that it currently pays to its creditors.

There are many "countries like Brazil". How can an anti-Third World Debt movement advocate that "countries like Brazil" *should* pay their debts? Did Ann Pettifor consult with the people of Brazil before making this statement?

How can people in Brazil or Indonesia be united in a campaign to cancel Third World Debt if that campaign does not call for the Brazilian and Indonesian debt to be cancelled?

The retreat from calling for the cancellation of the Third World Debt means that we sacrifice the greatest source of strength: the numerical superiority of what Fidel Castro called the "immense majority who are permanently indebted to a tiny minority".

Conclusion

Motivated above all by a desire to batten down the hatches before the next storm, the IMF and World Bank have set their face more firmly than ever against any general debt reduction of the Third World debt.

The G7 nations are tightening the debt noose around the Third World as a whole, and speeding up the marginalisation of those countries unable to keep up. This is how they are trying to "solve" the Third World Debt Crisis. Not by forgiving debt,

but by putting the Third World even more at the mercy of its creditors.

Next year, despite our best and noblest efforts, we will see the exact opposite of a Jubilee 2000.

One thing is for sure. The Third World Debt crisis is back. And it is closer to home, with Gordon Brown playing a leading enforcer role.

It is important that we not only recognise that this is so, but that we understand *why* this is so. The Third World debt is a vital part of the total mechanism of imperialist exploitation of the Third World. It is like a boot pressing down on the neck, forcing the submission of the governments while their peoples are robbed and violated.

The Third World debt provides the means for the US-dominated IMF to act as the world's policeman. It is the negation of the national sovereignty of the oppressed nations. Its removal—even by the seemingly painless means of diverting a small portion of military spending—would weaken imperialism and would therefore *deepen* the world crisis.

The decision by the IMF/G7 to withdraw its open-ended guarantee of private loans to the debt-enslaved 'emerging economies' is a sign of desperation. How much resolve Gordon Brown *et al* show when the wind really starts to blow we cannot yet know.

But one thing is for sure: *the IMF/G7 decision to change policy on Third World debt because of their fear of a systemic world crisis means that the Third World debt is now a part of this systemic crisis as never before.* To remove the Third World debt in the current situation, and for the foreseeable future, would remove one of the main pillars holding up world capitalism.

So be it! Our starting point, our minimum demand must be the minimum that is consistent with justice, the minimum

step that must be taken to stop the division in wealth and power becoming ever-more unequal, the minimum that needs to be done to stop poverty and underdevelopment getting worse.

Cancel the Third World Debt. All of it. No conditions, no delay, no argument. This is the only just solution and the only possible solution. If there is a debt, it is in the other direction. If there are conditions to be attached, they should be upon the imperialist nations themselves: that they halt their plunder and repair the damage that they have done.

How should this be financed? That's their problem. They own the banks, they have the money, they are the masters of the deal. Fidel Castro has generously suggested a way out to them: the imperialist governments should assume the debts owed by the Third World. They could maintain the stream of interest payments with a 10% reduction in military expenditures.

References and notes

¹ David Ransom, *New Internationalist* May 99

² From the UN's *1998 World Investment Report* "55 per cent of this debt is owed to private capital... only in the case of the poorest countries [is] the largest proportion of their debt from 'official' sources'" David Yaffe, in *FRFI* August/September 1999

³ What does the Köln Agreement mean for the Jubilee 2000 campaign worldwide? by Ann Pettifor, Director, Jubilee 2000 Coalition UK 24 June 1999

⁴ FT editorial 12 December 1998

⁵ "The sinister-sounding Enhanced Structural Adjustment Facility... has transmogrified to the rather more positive-sounding Poverty Reduction and Growth facility (inevitably contracted to PRGF)... but some worry that the new emphasis on poverty is... at best a figleaf for business as usual." FT 1-10-99

⁶ FT 1-10-99

⁷ Ellen Frank, in *New Internationalist* May 99

⁸ Archbishop Ndungane of Cape Town, one of Jubilee 2000's patrons, quoted by Ann Pettifor op cit.

⁹ FT, The Lex column, 14 July 1999.

¹⁰ The same article reported that "the stock of FDI from developing Asia reached \$317bn in 1988, accounting for four-fifths of all outward investment from the developing world. Over

half of this was invested in the region, with China the main recipient.

¹¹ FT 5-8-99

¹² Ellen Frank, in *New Internationalist* May 99

¹³ FT November ? 1998

¹⁴ FT, 22 October 1999

¹⁵ FT 14-15 January 1995

¹⁶ FT 5 October 1999

¹⁷ FT 27 July 1999

¹⁸ Jerome Booth, head of research at Ashmore, an emerging market investor, quoted in FT 20-9-99

¹⁹ "Brady bonds, which bear the name of a former US Treasury secretary, were created in the wake of the Latin American debt crisis in the 1980s and are often backed by US Treasuries. At the time, private creditors agreed to forgive some developing nation debt in return for stronger guarantees that it would eventually be repaid..." FT 30-7-99

²⁰ FT 30-7-99

²¹ FT 20 Sept 1999

²² FT 27/4/99

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²⁵ FT 18/11/99.

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²⁹ Diane Coyle, *Independent* economics editor, 4-10-99

³⁰ FT, 20 October 1999

³¹ Diane Coyle, *Independent* economics editor, 4-10-99

³² Martin Wolf, FT

³³ FT 29 October 1999, quoting Steve Woodhouse, UNICEF director in Jakarta.

³⁴ FT 16 November 1999

³⁵ FT 18 November 1999

³⁶ FT 16 November 1999

³⁷ FT 22 October 1999

³⁸ Socialist Review, September 1999

“Let’s have a general strike of debtors!”

Cuba’s leadership role in the struggle against Third World debt

Cuba’s revolutionary leaders were the first to notice the chains of debt which were being attached to Latin America and the newly-sovereign nations of Africa and Asia. In 1964, when Africa’s debt was \$3.5bn (it is now \$270bn), Che Guevara expressed Cuba’s view to a UN conference on Trade: *“It is unthinkable for the underdeveloped countries to have to bear the growing burden of the foreign debt while their just demands are ignored. These countries are already sustaining huge losses from the deterioration of the terms of trade. Moreover, through the steady drain of interest payments they have already more than repaid the value of the imperialists’ investments.”*¹

From the early 1960s, the Third World debt grew like a malignant tumour which caused increasing discomfort to its victims but which only revealed itself in 1982, when Mexico announced it was unable to service its debt. During this period, Cuban leaders were amongst the only ones to talk about the debt. They explained that the dramatic worsening of the debt in the 1970s, provoked by the tripling of interest rates, resulted *inter alia* from the US government’s decision to fund the arms race and the Vietnam war not by taxing US workers (and risk war at home) but by making the rest of the world pay through higher interest rates.

Fifteen years after Che spoke the prescient words quoted above, Fidel Castro addressed the 1979 UN General Assembly on behalf of 107 nations of the Non-Aligned Movement (NAM). Cuba’s election to the Presidency of the NAM resulted

more than anything else from the giant blow for humanity struck by volunteer Cuban troops in Angola, where they helped repulse the US/UK-backed South African invasion of that country, whose people had just won their fifteen year war of national liberation against Portuguese colonial rule in 1975.

From the UN podium in New York in 1979, Fidel Castro speaking "in the name of the immense majority of humanity" presented the Third World's demand for a New International Economic Order:

"Unequal exchange is ruining our peoples. It must end! ... The international monetary system is bankrupt. It must be replaced! The debts of the least developed countries ... must be cancelled! Indebtedness oppresses the rest of the developing countries... There must be relief! The economic chasm between the developed countries and the countries seeking development is not narrowing but widening. It must be closed! ..."

"The first fundamental objective in our struggle consists of reducing until we eliminate the unequal exchange that prevails today and converts international trade into a very useful vehicle for the plundering of our wealth. ... The Non-aligned countries demand ... a permanent linkage between the price we receive for our products and those paid for our imports ..." ²

Meanwhile, in Europe, the Brandt Commission³ issued its own report on the problems confronting the "developing nations". The Brandt Report, which essentially tried to make a case that it was in the self-interest of the imperialist powers to end to unfair trade, share power and transfer resources to the Third World, provided a safe "dissident" pole in the official "debate" on the plight of the Third World.

Brandt and his cronies received blanket coverage, while Cuba and the Non-Aligned Movement had a blanket thrown over them. This turned out to be the main function of the Brandt

Commission, since nothing was ever done with its own proposals.

Is not the same thing happening again? In the official debate between G7, IMF and World Bank and Jubilee 2000, the billions who are oppressed and exploited by the debt are exhibits, or, at best, expert witnesses, but are not allowed to define the agenda.

Cuba makes a proposal: Cancel the Third World Debt!

"What do workers in a union do when they are being bugged and ignored by the boss? What do they do? When they get tired of asking and repeating, "Look, dear boss, listen, pay attention to me, my children are barefoot, my children don't have anything to eat. I have no money to buy medicine. I can't make ends meet, my house is leaking," and they are simply ignored, they go on strike. What we are then saying is, in essence, for everybody to understand, let's have a general strike of debtors. a general strike of debtors!"

– **Fidel Castro**, to continent-wide conference of women held in Havana in June 1985

During 1985, Cuba launched a campaign for all debtor nations to form a united front and demand the cancellation of the entire Third World debt. To a conference of Latin American journalists, Fidel Castro explained the principal reason why Cuba had moved on from the position enunciated in 1979 to the UN General Assembly:

"In 1979 we were already calling for the cancellation of the poorest countries' debt and broad payment facilities for the others.... The change is that now we are demanding cancellation for the entire Third World, since there must be a united front if we want to win the battle..."

A feature of this campaign were well-attended conferences of workers, women, youth and other sectors from across Latin America and the Caribbean. In Brazil and other Latin American countries, some of the proceedings and Fidel Castro's speeches were broadcast live on TV.

"The impact of Castro's proposal has been stunning. The Excelsior (Mexican daily newspaper) interview ... was run in instalments in nine consecutive issues—each one featured on the front page... [it] was widely publicised, summarised, and excerpted in other newspapers and on television and radio throughout Latin America, and elsewhere around the world. Summaries were run in major dailies in Brazil... the Cuban

Cuban Workers' Federation (CTC) calls for Latin America's unions to lead struggle

From the CTC's call to a continent-wide conference of trade unions on the Third World, Debt, held in Havana July 1985

"the debt is, in fact, a new instrument for pillaging wielded by interests that have never ceased to plunder and bleed our countries' economies dry, and that therefore the debt has no legitimate, legal, or moral basis... We Latin American and Caribbean trade unionists must come to the conclusion that a realistic solution to the debt problem must be found. Complying with the creditors' egotistical, blind and brutal criteria is tantamount to suicide... We are standing on a volcano which is about to erupt. We, the workers and the trade unions of Latin America and the Caribbean, having accumulated so much experience and waged so many struggles, must face this difficult situation with unity, intelligence, courage, a constructive spirit, and a great sense of responsibility... If the workers and their trade unions... can show the way toward concerted action by all our nations and governments in regard to the foreign debt, then [we] can be saved"

government published the section on the debt crisis in pamphlet form in several languages, and is distributing it throughout the world" ⁴

Trade unions, peasant organisation and many others took up Cuba's call, made banners calling for the debt to be cancelled, and organised protests and mass public education around the themes discussed in the Havana conferences. The

forces gathered at the Havana conferences organised a continent-wide anti-debt protest on 21 October 1985, which saw demonstrations and work stoppages throughout Latin America and the Caribbean. The day was also marked by demonstrations of 'solidarity with the non-payment of debt' in a number of imperialist countries, most notably Spain, whose trade unions organised demonstrations in 25 Spanish cities.

Fidel Castro explained Cuba's strategic conception for the debt cancellation campaign in a speech to a continent-wide conference of trade unions and peasant organisations:

"we can wage this struggle... but it must be united and all-encompassing... it is a matter of a struggle for national liberation ... this struggle must be as broad as possible, if not, we will not win the battle. ... Those who wish to exclude themselves, let them do so, let them exclude themselves, but we shouldn't exclude them! (Applause)

"... the time for definitions has come... all men and women of this hemisphere, whatever their social strata ... should say whether the tribute should be rendered to the empire or to the homeland, ... let each one take a stand. And some will. We know that there are minority sectors that are the ones most directly linked to imperialism... we know they exist ...but they will be a minority, they should be a minority. And if a greater number place themselves on the side of imperialism than should be, then we start losing the battle. That can happen if we are not comprehensive; it can happen if we are sectarian. We also have a lot of experience in the battle against sectarianism, the experience of our own revolution..."

The series of sectoral conferences—for women, workers, youth, journalists—culminated in a five-day conference in August attended by 1,200 delegates from 31 countries in Latin America and the Caribbean. Of those participating,

some 100 represented trades unions or peasant organisations, 115 were heads of parties or political organisations, 50 represented various women's groups. The political basis of the anti-debt campaign was expressed by Fidel Castro in the following way:

"For those who say that our statements are radical, there's the letter from Cardinal Arns of Sao Paulo... I'd like to devote a few minutes to reading the basic points..."

"First, there are no real possibilities for the Latin American and Caribbean peoples to take on the responsibility of paying the colossal debts incurred by our governments...."

"Second, the problem of the debt, rather than financial, is fundamentally a political one and should be viewed as such. What is at stake is not the international creditors' accounts but rather the lives of millions of persons who can't stand the constant threat of recessive measures and unemployment that cause poverty and death."

"Third, human rights demand that all men of goodwill in this continent and the Caribbean, all responsible sectors, join efforts in an urgent search for a realistic solution to the problem of the foreign debt, as the way to preserve our nations' sovereignty and safeguard the principle that our governments' main commitment is not to the creditors but to the peoples they represent."

"Fourth, the unwavering defence of the principle of our peoples' self-determination demands an end to interference by international agencies in our nations' financial management. Considering that government is a public entity, every document signed with those agencies must be known to the public immediately."

"Fifth, there's pressing need for the reestablishment of sound foundations for a New International Economic Order, in which unequal relations between rich and poor countries would be eliminated and the Third World's inalienable right to decide on its own future, free of imperialist interference and plunderous measures in international trade relations, would be assured."

"They say that the theses I'm defending are radical. Very well. I'm 100 percent in favour of the five-point program presented by that illustrious son of Brazil, Paulo Evaristo Cardinal Arns! (APPLAUSE) I hope they'll stop saying that these ideas are extremist!"

How to cancel the debt without causing a world financial collapse

Cuba's proposals contained a simple way to cancel the entire Third World Debt without precipitating a collapse of the international banking system. In fact, no creditor need lose a penny, and neither does anyone need to pay more taxes. There is no trick either – just take the money out of arms spending!

To the August 1985 Havana Conference, Fidel Castro explained:

"Are there resources? Yes, there are resources. What are they used for? To create the means for killing people, for war, for the arms race.

"A trillion dollars for military spending! In just one year, the world squanders a trillion dollars playing war and on military spending —more than the whole foreign debt of the combined Third World.

"Isn't there a basic logic here? Couldn't any human being understand ... that it's worth the trouble to eliminate this debt with a small part of what's used on military spending? Because we're not talking about Latin America's debt; we're talking about the Third World's debt. At the most, depending on the interest, 12 percent of current military spending would be sufficient..."

"We must send a message to the people in the industrialised countries, showing that what's going on is a terrible madness. We must send a message to the workers, the students, the intellectuals, the women, the middle sectors... that these formulas we're suggesting will not hurt them.

They won't raise taxes, because if we take the resources from military budgets it won't be necessary.

"We must send a message to bank depositors. When they say that any of these formulas would ruin the world financial system, we must tell them, "No, that's a lie!" If the resources to solve the debt problem and create the New Economic Order are taken from military spending, then no one with a bank account would lose any money.

"... We must send a message to the workers, whose scourge is unemployment... that this formula would increase the purchasing power of the Third World, factories will be better utilised, and there will be more employment in the industrialised countries.

"Someone over there had an article which said, "Castro, Keynesian." ... There could be some coincidence in the fact that the increase in purchasing power for that enormous group of needy in the Third World will, of course, increase trade, exports, and employment in the developed capitalist world. It won't save capitalism, because capitalism cannot be saved! The problem for the Third World is to not die before capitalism does. (APPLAUSE) That's the problem"

Cancelling debt on its own will not solve the problem

Throughout the campaign, Cuba emphasised that debt cancellation is only one of the minimum measures which needed to be taken to solve the growing underdevelopment and poverty across the Third World. Fidel Castro stated this constant theme to the August debt conference:

"It's not enough to solve the debt problem by annulling or abolishing the debt. We would wind up in the same place, because the factors that determine the situation would still be present. And [so] we have made close associations between ... the abolition of the debt and the establishment of the New International Economic Order."

If the entire debt was cancelled and nothing else changed, Castro noted, the debt would rapidly reappear. The cancellation of the debt must be accompanied by, or at least be the starting point for, a transformation of the world economy: the elimination of unequal exchange, dumping, protectionism and other crippling impediments to economic development. These necessary measures were included in the call for a New International Economic Order, adopted by the Seventh Special Session of the United Nations General Assembly in September 1975, but never implemented.

This essential link arose from an extensive analysis of the reasons why the debt was growing so fast and why it existed in the first place. In his interviews and speeches, Castro unmasked not just the debt but the entire system of injustice and exploitation presided over by the US and its junior partners in the G7.

It is beyond the scope of this article to discuss in more detail the thinking behind the call for The New International Economic Order. It is sufficient to state that its arrival would represent the fulfilment of the demands presented by Fidel Castro on behalf of 107 Third World nations to the UN General Assembly in 1979 (see p51).

Latin America's governments decide to pay the debt

The intense debate provoked by Cuba's proposal, and the widespread support it received, caused serious alarm in the imperialist capitals—and also in the Government Palaces of many Latin America countries, whose incumbents were afraid of an aroused population and fearful of upsetting their relations with their masters. They had been put on the spot by a central element of the Cuban proposal: *that the Latin American nations could and should take the lead and initiate this struggle on behalf of the entire Third World.*

Addressing a continent-wide conference of women held in Havana in June 1985, Fidel Castro explained why:

"Latin America is the Third World region that carries greatest political weight, is more developed, and has greater possibilities of taking the lead in this battle. But it's really a Third World battle... for Africa and Asia. And I assure you, Latin American will not be alone in that struggle. So, it is a question of survival for all..."

In a February 1985 interview, Castro developed the point:

"To try to collect the debt, at least in Latin America, would be socially explosive. Although the situation in Africa is very serious, it is different. There, a large part of population lives in villages as they lived centuries ago. There, the people suffer hunger and drought and die, but the continent will not inevitably explode. There is a different social composition in Latin America including workers, peasants, middle strata, intellectuals, great urban masses. The social conditions for such an explosion exist in Latin America."⁵

Another factor favouring Latin American leadership was the passing of military dictatorships, installed by the US and its CIA during the 1960s to crush the continent-wide struggles of workers and peasants inspired by the Cuban and Vietnamese revolutions. The arrival of democratic governments across Latin America created much more space for the people to struggle, and meant that all political leaders had to make the choice—whether "to pay tribute to the empire or to the homeland"—out in the open.

The military dictators abandoned their government palaces across Latin America not just because they were rejected by the people and faced widespread and militant opposition, but because the US imperialists realised that they had to make changes to their system of domination. This change of mind was more than anything else a consequence of the Nicaraguan revolution of 1979 and of the revolutionary struggles in Guatemala and El Salvador. Imperialism—and the more intelligent among Latin America's ruling families—realised military dictatorship left revolution as the only way out for the peoples.

Furthermore, the mass participation and grass-roots democracy which characterised Nicaragua during its revolutionary years was winning hearts and minds across Latin America. Millions of Latin Americans were enraged by the 'contra war', the US-organised campaign of terror and mass murder which had killed twenty thousand Nicaraguans by 1985, and also by their own governments' refusal to stand by Nicaragua. In the defence of Nicaragua, as in the case of the debt, Cuba spoke for millions across Latin America.

It was not accidental, in the Cuban view, that the Third World debt crisis first broke out in Latin America with the 1982 Mexican default. This fact confirmed the central role which Latin America could and must play in leading the Third World out of debt slavery.

Cuba's leaders knew that Latin America's capitalist governments would not be willing participants in a campaign for debt cancellation. But neither did they underestimate the potential power of Latin America's working people, the ones who bore the burden of the debt, to force all who claimed to represent them to take a stand. Fidel Castro discussed the attitude of "those who are more worried about Cuba's campaign than the debt they must pay" in response to a question at the July 1985 journalists' conference:

"The US administration [is] turning on the heat everywhere, desperately inventing all sorts of tricks to belittle Cuba's ideas and weaken the powerful movement that has developed. As a result, a number of Latin American politicians have become alarmed about Cuba carrying out this campaign. Ah, because Cuba must not only be a blockaded country, a country that can be attacked... [but also] it must resign itself to everything, it has no right to express an idea, despite the fact that we've been talking about these problems for more than 15 years... We'd be glad to turn over our campaign to anyone who wishes to carry it on. We'd renounce all rights to another Latin American

government or governments or leaders, as long as they do what they have to do and do not betray it.

"Why have we carried on this campaign? Because others didn't . We're not doing it for the sake of glory or prestige. No real revolutionary pays attention to such things. [José] Martí said that all the world's glory fits into a kernel of corn, and that's one of the first things we learned."

The governments of eleven nations in Latin America formed the Cartagena Group⁶, which countered the Cuban proposals with their own: a plea to the IMF for more loans at lower interest rates. Peru, led at that time by Alan Garcia, attempted to implement a policy limiting debt servicing to 10% of Peru's export earnings. Influential figures in the anti-debt campaign in the imperialist countries either ignored or misrepresented Cuba's conceptions and proposals.⁷

Fidel Castro pointed out that Alan Garcia's '10% solution' was no solution, since the unpaid interest would simply be added to the amount owed, the debtor nations would find themselves being charged interest on their interest, and the total debt would spiral out of control.

To the Havana women's conference, he stated:

"The Latin American countries piously meet to implore that they be taken into account, that they are starving, and they write letters. In this situation, they set up a small group, the so-called Cartagena Group, and start writing moderate, careful, elegant, polite letters: "Look. Sir, please, we need to have political dialogue to settle these problems, to discuss the question of the debt. Look. sir, give us a break: increase the basic funds of the International Monetary Fund, the special drawing rights, make provisions for a special fund earmarked to cover excess interest, help us."

"And so the spring meeting of the International Monetary Fund was held in the month of April in Washington. Well, the Cartagena Group wrote its letter, made its proposals,

pleaded, implored, and was left waiting. The matter was settled in 15 minutes, they were told: "No" and that was that. "That's ridiculous, forget about it. work hard, export, be austere, economise so you can pay the debt. and, moreover, develop.... [so they wrote another letter] and approximately a month went by ... in the end their reply was: "Nothing doing, forget about it, gentlemen! Work hard, be austere, economise, write off the deficits. each and every one of you solve the problem."(LAUGHTER AND APPLAUSE) Incredible, simply incredible, a circus, a piece of theatrics! "Manage as best you can!"...

"Some may ask what will happen if governments don't show determination. If this battle is not taken up, if this problem is not solved, what next? Neither do I have any doubts on what is going to happen. There will be pretty generalised social upheaval throughout the hemisphere, possibly revolutionary social upheaval. It also has to be said to these gentlemen ... You don't want revolution? Well, you're going to have them by the dozen across the world if the situation continues."

The campaign for debt cancellation in the New World Disorder

Cuba's conceptions and proposals must be part of the debate and the consciousness of the resurgent campaign against the Third World debt! To censor and suppress these views, in order not to alienate the decision-makers, is unacceptable!

At the same time, the world is a different place in 1999 than it was in 1985. Fifteen years of debt slavery has indeed seen *"national governments transformed into local enforcement agents of transnational corporations and banks"* in the words of debt campaigner Ellen Frank.

The changed circumstances can be broadly grouped under two headings, political and economic.

The mid 1980s, when the debt crisis was in its early stages, were "a time for definitions", and in the period since the

Third World's ruling elites have had plenty of time to define themselves. They have chosen to pay tribute to the empire and to betray their own peoples. Instead of satisfying the needs of the people, their economies are geared more and more to maximise export volumes, for which they receive less and less because they are all overproducing and competing with one another. They have allowed themselves to be divided and ruled, their meek resistance bought off with a few bribes, concessions and plane-loads of weapons. Another big difference is that the empire has struck back; it has gone on a sustained offensive against growing challenges to its supremacy. This counter-offensive was greatly accelerated by the 1991 Gulf War, a 40 day and night blitz which devastated Iraq, a 'war' in which one side did all the killing while the other side did all the dying. The defeat of the Nicaraguan and Grenadan revolutions⁸ and of the revolutionary movements in Central America at the end of the 1980s made this counter-offensive possible; on the other hand, the collapse of the Stalinist regimes has brought a host of new problems, further motivating the imperialists into a new phase of militarisation and war preparations.

Much more could be said of the changed world context, but perhaps the biggest difference is the state of the world economy, which has now decisively moved into a depression phase, in which gigantic amounts of capital must be destroyed in order to eliminate overproduction and restore the average rate of profit. More of the world is enduring depression conditions than at any time since WW2—the economies of the whole of Africa, Latin America, much of Asia including China and Japan are stagnant or in decline. Only the US and European economies have yet to succumb to the forces of depression, but succumb they will. Three factors help explain the delay: the collapse of Third World export commodities over the past decades (unequal exchange); the investors' 'flight to quality' as they take their

money out of 'emerging' (read 'submerging') markets and reinvest it in their own stock exchanges, further expanding the bubble; *and the creation of trillions of dollars of debt*, artificially boosting demand and postponing the appearance of the overproduction crisis.

Since 1985, the US has turned from being the world's biggest creditor to the world's biggest debtor—net US government debt now exceeds total Third World debt! The story is repeated for the other imperialist economies. This is nowhere more true than in Japan, whose public debt is rocketing skywards as the Japanese government nationalises the mountain of bad debts and borrows more money still in order to reflate the economy. One single recently-announced pump-priming package cost \$300bn in new public debt!

Private companies, local government (my city, Sheffield, owes \$1.5bn dollars!), and consumers are also much more in debt now than 15 years ago. Amidst the huge expansion of debt, the Third World debt is something very distinct—a product of, a form of and a symbol of the exploitation and oppression which define the relations between the imperialist nations and the rest of the world.

All these factors, and more besides, have removed the practical possibility for a debtor's united front, a possibility which did exist in 1985.

Cuba has continued to campaign against the debt, as always in the context of fighting the system of oppression and exploitation which the debt symbolises. In this article, which is mostly made up of luminous quotes from Fidel Castro, it is fitting to close with a few more of his words.

CLOSING SPEECH GIVEN BY FIDEL CASTRO TO HAVANA CONFERENCE ON GLOBALISATION, JAN 22, 1999.

... What type of globalisation do we have today?

A neoliberal globalisation; that is what many of us are calling it. Is it sustainable? No. Can it survive for much time?

Absolutely not. A matter of centuries? Categorically not. Will it only last a few decades? Yes, only decades. But sooner or later it will have to come to an end. ...

How is the transition going to come about?

We don't know. Through widespread violent revolutions or great wars? That would seem improbable, irrational and suicidal. Through profound and catastrophic crises?

Unfortunately that seems the most likely, almost, almost inevitable outcome, and it will come about in many diverse ways and through many forms of struggle.

What kind of globalisation will it be?

It couldn't be any other than jointly shared, socialist, communist, or whatever you want to call it.

Does nature and, with it, the human species, have much time to survive the absence of such a change?

Very little.

Who will be the creators of that new world?

The men and women who people our planet.

What will be the essential weapons?

Ideas, minds.

Who will sow them, cultivate them and make them invincible?

You!

Notes and references

¹ "To Speak the Truth", pp115-6. This book, published by Pathfinde, contains the full text of this important speech, along with other speeches by Fidel Castro and Che Guevara to the United Nations.

² Published by Pathfinder in *To Speak the Truth* and in pamphlet form.

³ The Brandt Commission was named after its chairman, the former social-democrat West German Chancellor Willy Brandt, and included former UK premier Edward Heath, Sweden's Olof Palme, Eduardo Frei who is current Chilean President and Sridath Ramphal from the British Commonwealth.

⁴ Doug Jenness, in his introduction to *Fidel Castro Speeches 1984-85: War and Crisis in the Americas*, Pathfinder Press.

⁵ Interview with Spanish news agency EFE, 13 February 1985. Major excerpts were printed in the 15 April 1985 issue of *Intercontinental Press*.

⁶ Named after the Colombian city Cartagena, where 11 Latin American foreign ministers and economy ministers met in June 1984.

⁷ A notable example of such misrepresentation was given by Dr Susan George, in *A Fate Worse Than Debt*, a "radical new analysis of the Third World debt crisis":

"Was it frustration with weak knees and pliant spines which brought Fidel Castro to the forefront of the debt debate in 1985? Did he perhaps see an opportunity to act as a Latin American elder statesman and reduce his isolation? Whatever his motives, revolutionary Fidel sounded almost like an ally of free enterprise and a supporter of public order... [yet] Fidel's blueprint for saving capitalism is unlikely to appeal much to capitalists" p216.

⁸ These defeats were not won by imperialism but were handed to them on a plate—in Grenada, a Stalinist faction murdered popular revolutionary leader Maurice Bishop and overthrew the revolutionary government; opening the way for the US invasion a few days later. In Nicaragua, the Sandinista leadership tried to find the non-existent 'third way' between Cuban-style revolution and neocolonial dependency. They forgot the words of Che Guevara "the revolution will be socialist or it will be a caricature of a revolution."