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Disarming debt

We could – but will we?

Susan George

In the 1980s Third World debt became the greatest new contributing factor to hunger and immiseration. At the end of a decade of debt management by the IMF and the World Bank, debtor countries are worse off than before. So are citizens in the North, affected by debt-induced environmental destruction, drug trafficking, loss of jobs and markets, etc. Debt could be made a resource for development and democracy, but for that to happen citizens of the North will have to demand from national and international debt managers a different strategy, and to remember that the Third World is 80% of humanity.

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The hut is sinking in the mud near the bridge over the River Guaibe in Porto Alegre, Brazil. A woman social worker is welcomed by five children, the oldest about 8 years old. The parents have gone out foraging in the garbage heaps. Noticing how poorly the children look, the social worker asks them whether they have eaten recently. 'Yes, miss, yesterday Mummy made little cakes from wet newspapers.' 'What? Little cakes from what?', asks the woman. 'Mummy takes a sheet of newspaper, makes it into a ball and soaks it in water and when it is nice and soft kneads it into little cakes. We eat them, drink some water and feel nice and full inside.'[1]

During the 'lost decade' of the 1980s Third World debt indisputably became the largest new contributing factor to hunger. The case of Brazil, the southern hemisphere's largest debtor, where children eat newspapers, may be particularly dramatic; it is not, alas, an isolated one. According to the Brazilian government's own figures two-thirds of the population suffer from malnutrition in one degree or another. Meanwhile, the outflow of interest payments from the Brazilian treasury to northern creditors has averaged over a billion dollars every month since 1982.[2]

Obliged to earn hard currency by any means available, Brazil has steadily put more land under cash crops and has become the second largest agri-exporter in the world, just behind the USA. Small farmers pushed off export-crop growing land have streamed into Amazonia, razing and burning the tropical forest as they move forward. Clearing the forest is indeed the only way to obtain title to land, already of meagre agricultural value, which will soon be worthless for growing anything. The government, hand in hand with the largest landowners, is unlikely to alter this situation: 400 mega-farmers own the equivalent of 85% of Great Britain and their hired guns have, with impunity, murdered hundreds of people who have dared to protest.

Austerity measures, which are supposed to help the country pay its debt at the cost of 'temporary' suffering, have eliminated food consumption subsidies and crushed purchasing power. Unicef reported that the number of working hours required to purchase a typical family's basic food for a month almost doubled, from 130 to 240 hours, between 1977 and 1984.[3] The new Brazilian president will, if anything, reinforce austerity in order to service a debt which has grown by a third since 1982. And Brazilians will continue to go hungry.

[1] From a 1986 newsletter of the Brazilian Evangelical Lutheran Church, quoted by Susan George, *A Fate Worse Than Debt*, Grove Press, New York, NY, USA and Penguin Books, Harmondsworth, UK, 1988, p 137.
[2] Organization for Economic Cooperation and Development (OECD), *Financing and External Debt of Developing Countries*, OECD, Paris, France, 1989, p 93.
[3] *State of the World's Children 1984*, Unicef, New York, NY, USA, 1984.

Debt-induced hunger and malnutrition in turn fuel high infant mortality rates. In its report on *The State of the World's Children 1989*, Unicef estimated that roughly half a million children die every year because of the debt crisis.[4] Two US researchers sharpen Unicef's general reckoning for the case of the Philippines:

By our most conservative estimate, at least 9200 Filipino children could be saved in one year if the Philippines reduced debt service payments to 20% of export earnings. That is 25 children a day, or more than one child each hour. Our calculations assume that the Department of Health would be allocated the same share of the savings from the debt cap as it currently receives in the national budget . . . Such debt savings would increase the health budget by over 50 percent, permitting an acceleration in efforts to combat infant mortality.[5]

The Filipino government has, however, continued to devote 44% of government spending to servicing its $30 billion debt. Devaluation of the peso, mass sackings, especially of public employees, curbs on imports and sharply rising prices of basic staples have put a decent diet beyond the reach of millions of Filipinos. The same scenario is being played out all over the Third World. In some sub-Saharan African countries, real wages have declined by over 50%, according to the International Labour Organization (ILO).[6]

Structural adjustment

Such factors – lower wages, higher food prices, cancelled subsidies, loss of employment – although they bring disaster to the poor, are all intentional. They are all standard features of the 'stabilization' or 'structural adjustment' packages of economic orthodoxy imposed on country after indebted country by the International Monetary Fund (IMF), often working in tandem with the World Bank. Sometimes even those rare structural adjustment measures that would appear to favour small farmers and food production serve only to create more hunger. The ILO points out that:

one of the reasons for the growing extent of malnutrition in sub-Saharan Africa is related to the policy of price liberalization for agricultural commodities . . . an improved pricing policy does not automatically alleviate rural poverty. The majority of farmers in the region cultivate small plots of land and do not produce sufficient marketable surplus to benefit from higher producer prices. In some cases, food-deficit farmers may actually become worse off.[7]

When food prices double or triple overnight, when thousands have no hope of work or of improving their production, when people literally reach the end of their tether, civil disorder and loss of life follow. Riots – routinely referred to by those concerned as 'IMF riots' – triggered by escalating prices of basic necessities have occurred in over two dozen countries, causing at least 3500 deaths, 7000 wounded and countless thousands of arrests.[8]

Although the debt crisis is causing untold hunger and misery for uncounted people in the Third World, one can only fear that the list of victims, like the list of 'problem' debtors, will grow even longer in the 1990s. India, for example, has not so far been obliged to submit to structural adjustment, but by the end of 1989 it had accumulated debts of $60 billion. A visit to the IMF, begging bowl in hand, seems only a matter of time.[9] Then Indians too, especially poor ones, will start to pay with their lives for borrowed money from which they never benefited.

[4] *State of the World's Children 1989*, Unicef, New York, NY, USA, 1989, p 1.
[5] John Cavanagh and Robin Broad, 'Repaying RP debt kills a Filipino child per hour', *Philippine Daily Inquirer*, 30 March 1989.
[6] International Labour Organization, *African Employment Report 1988*, ILO/JASPA, Addis Ababa, Ethiopia, 1988, Table 5.
[7] *Ibid*, p 33.
[8] Denis Sulmont, *Deuda y trabajadores: un reto para la solidaridad*, ADEC-ATC, Lima, Peru, 1988, annex on riots up to 1986. Sulmont takes his tallies for individual riots (which I have added up) from Western press sources so one may assume that in many cases they understate the reality.
[9] 'India raises trade debt estimate: Minister reports $60 billion, double earlier figure', *International Herald Tribune*, 12 December 1989.

Few people are prepared to take to the streets to demand radically altered management of the debt crisis. Perhaps if the 1370 children who die from it every day were, say, simply taken outside and shot, millions would wake up. Late 20th century methods are, however, more subtle, and most people – if they think about it at all – believe that Third World debt is a subject for the financial pages; that experts are doubtless dealing with it in rational ways.

Are they? Do present strategies work? Since the debt crisis erupted in 1982, enough water – and money – has passed under the bridge for us to be able to judge the debt managers according to their own criteria. They have always claimed that structural adjustment would, however painfully, allow the debtors to grow their way out of debt and – perhaps slowly but altogether surely – to reduce their financial burden.

Table 1 shows what has actually happened. As this table shows, the situation has invariably grown worse for all debtors. The only reason the 'All developing countries' debt increased by a 'mere' 48% is because some Asian dragons like Korea have made massive, anticipated repayments to reduce their debt load. Korea's total 1985 debt of $56 billion was by 1987 reduced to $48 billion, thanks to payments of interest and principal of nearly $42 billion between 1985 and 1987.[10] Otherwise the growth of LDC debt would have registered well over 50%. The poorest of the poor, the least developed countries and sub-Saharan Africa (the two categories often overlap) have seen their debt doubled. Africans have been squeezed in order to provide their creditors with an average of $10 billion a year since 1982.

Jamaica's case is noted because the country is small enough to be a kind of laboratory and has scrupulously done everything the IMF asks, and more. Its only reward is to find itself two-thirds more indebted than in 1982, with little growth to show for it and an effective interest rate in 1987 of over 15%.[11] This is success?

Effects on the North

Why should we – ie 'we' in the North – care? Aside from the moral reasons for rejecting any policy that demonstrably destroys so many livelihoods and so many lives, should we worry that Third World debt could bring down the international financial system if generalized default occurs? Not any more. Since 1982 the creditor government policy has had a single objective: to protect the banks from the consequences of their own foolhardy lending, and this goal has been fully attained.

There are still, however, extremely grave reasons why northerners should be demanding radically new debt management policies. The

[10]OECD, *op cit*, Ref 2, p 142.

[11]See Chapter 11 of George, *op cit*, Ref 1, on Jamaica as an IMF laboratory experiment and its disastrous consequences. See also *World Development Report 1989*, World Bank, Washington, DC, USA, 1989, Tables 8 and 14.

Table 1. Third World debt, 1982–88.

	Total debt, 1982 ($ billion)	Total debt, 1988 ($ billion)	% change since 1982	Total service paid, 1982–88 ($ billion)	Service payments in 1988 as % of debt held in 1988
Least developed countries	35.8	69.3	+93	21	5
Sub-Saharan Africa	72	148	+105	70	7.5
All developing country debtors	835	1240	+48.5	1008	14.4
Jamaica (1982–87)	2.9	4.9	+66	3.3	15.8

Source: OECD, *op cit*, Ref 2, various tables.

latest officially proposed strategy, the Brady Plan, is unlikely to make much of a dent in current debt levels. It does, for the first time, recognize the need for debt reduction, not just rescheduling, but it is intended to apply to a limited number of countries. Moreover, in the Mexican case, to which it was first applied, it reduced overall payments by a mere 8%.[12] Let us list, without entering into detail, six major areas of concern through which the prosperous North, whether it likes it or not, is inextricably linked to the impoverished, indebted South.

- Taxes. Banks often get substantial tax relief for making 'loan loss provisions' against the possibility of future bad debts (eg approximately £1.6 billion for UK banks between 1987 and 1989). Whatever taxes banks do not pay, we must pay, or we must go without the public services these taxes could have provided.[13]
- Environmental destruction. Exaggerated cash-cropping can lead to decimation of forests, as in Brazil. Put more straightforwardly, heavily indebted countries simply cash in whatever natural resources they have in order to earn hard currency. Every country where significant stands of tropical forest remain is also a significant debtor. Biological diversity disappears along with the forests. Soils are also 'mined' and minerals depleted in the drive to export.
- Drugs. Again, enormous pressure to earn foreign exchange causes many governments to turn a blind eye to illegal activities, especially when the illegal crops fetch a far higher price than legally grown crops such as coffee. Furthermore, coca is one of the few raw materials to which Third World countries are able to add value through processing and sell as a semi-finished or finished product.
- Immigration. The huge drop in living standards engendered by debt has increased immigration pressures (legal or clandestine) from Mexico and Central America to the USA; from North and sub-Saharan Africa to Europe. Legal migration of highly educated people – doctors, nurses, etc – better known as the 'brain drain', also occurs, emptying the indebted countries of their professionals while sometimes overcrowding those same professions in the North.
- Employment and markets. When the debtors have finished paying their debt service, little remains to purchase industrial or agricultural products from the North. As US/European exports to the Third World are curtailed through lack of purchasing power, jobs are lost and farms fail.
- Political instability. The Third World debt crisis can only lead to the instability of young democracies and quite possibly to unpredictable attacks against northern interests. Within a decade some 85% of the world will be exceedingly poor, badly educated, young and – if present trends are not altered – hopeless: an ideal prey for various religious or political fundamentalisms.[14]

Forces for change

These arguments may be enough to demonstrate the need for a different debt strategy. But accepting an argument is not the same thing as instituting a policy. Who exactly, in today's world, is likely to provide the impetus for a radical change in present policies, to lead towards a genuine solution to the debt crisis?

To answer this question, we may proceed by a process of elimination.

[12]Melvin Fagen, 'Third World debt: the Brady plan needs a rethink', *International Herald Tribune*, 3–4 March 1990. Fagen, former director of the United Nations Economic Commission for Europe, argues: 'Even though the net reduction in the country's total bank debt would be $5.8 billion, this would be offset by an equivalent amount that Mexico would need to borrow from IMF, the World Bank, and the Japanese government to finance the required bank guarantees.'

[13]On UK banks, interview, John Denham of the UK charity War on Want in the BBC Television programme *A Fate Worse than Debt*, broadcast 28 December 1989.

[14]The Transnational Institute, Amsterdam, is undertaking a major research project on the impact of Third World debt on the North, focusing in particular on the six categories listed.

Northern governments?

The major creditor country governments and the international institutions (World Bank, IMF) they control are unlikely to take any real, path-breaking initiatives because they do not see this as being in their interest. Now that the banking system is no longer endangered, the Third World debt crisis provides them with significant short-term financial advantages. Dozens of countries competing to earn foreign exchange by exporting a limited range of commodities ensure continued low prices for raw materials. The net outflow from the poor countries to the rich (ie debt service over and above all public and private investment, new loans, aid, etc) has amounted to over $330 billion since 1982.[15]

Northern governments can further use the leverage debt confers on them to gain short-term political advantages; indeed, the Third World can no longer intervene significantly – as it so often tried to do in the 1960s and 1970s – in global political management. Creditor governments also see the 'problem debtors' as less politically and commercially important than they were, particularly since the opening of Eastern Europe as a substitute market and source of cheap and highly skilled labour.

Trade trends also point to disengagement from the Third World and its problems, including its debt and hunger problems. GATT figures show that Latin America now represents just over 4% of world exports, whereas Africa's share is only 2.5% – with South Africa accounting for 20% of this small figure, and the five North African countries for 37%.[16] Heavily indebted, hungry sub-Saharan Africa thus accounts for just a shade over 1% of world exports. Most people in the North would scarcely notice if it dropped off the map, which allows the creditor governments enormous latitude for callousness.

Southern governments?

Will the debtor countries themselves act? Can they? Since 1982 the debtors have not seized the opportunity to unite and now the moment when they could have, together, posed a threat is largely past. Nor is a radically new solution to the debt crisis necessarily in the interests of southern elites either. They want to remain full players in the world financial system and the debt 'crisis' has infrequently been a crisis for them. They have witnessed vast opportunities for speculation, huge price increases on Latin American stock markets, advantages in acquiring assets for anyone who has access to dollars, etc. The few governments which have tried, alone, to challenge the creditors (Peru, to a lesser extent Brazil) have been quickly isolated or brought back into line. Thus the debtor governments continue to come to the negotiating table separately, on the 'case-by-case' basis demanded by the North.

Popular movements in the South?

Might the civil societies of the South apply enough pressure to force their governments to stand up to the creditors? Such an outcome does not yet seem possible either: growing numbers of people are protesting against the intolerable burden of debt but they have not been strong enough to oblige their governments to cut back on debt payments or to challenge the structural adjustment development model. Social movements in the South are, of necessity, today largely preoccupied with survival; those who protest also risk being killed by their own security forces.

[15]OECD, *op cit*, Ref 2, calculated from Tables III.1 and V.2 ('Total net resource flows to developing countries' and 'Total annual debt service of developing countries during 1980–88').
[16]GATT, *Le Commerce international 87–88*, Vol I, Table 11, and Volume II, Table IV.33, Geneva, 1988.

Civil society in the North?

If this analysis is correct so far, then by process of elimination we must conclude that any implementation of an equitable solution to the debt crisis lies largely in the hands of 'civil society' in the North, working with popular movements in the South. Although so far only a few groups – churches, non-governmental organizations (NGOs), etc – have taken an interest in the debt question, many other citizen movements ought to join them if and when they are properly informed. These would include trade unions concerned about loss of jobs and manufacturers about loss of sales; environmentalists worried about the tropical forests and parents about the drug invasion; authorities dealing with inflows of migrants; taxpayers in general.

Furthermore, whatever benefits may have accrued to northern interests as a result of southern debt have not been shared with the vast majority of citizens in creditor countries. Corporations do not pass on cheap raw material prices to the consumer, nor is the influx of capital from the Third World necessarily invested productively – rather it helps to fuel speculation, hostile takeovers and the 'casino society'.

Finding a solution

So there is at least a slim hope that the majorities of the North and South can unite, both out of a sense of solidarity and because it is in their interests to do so. These interests converge. On both sides, ordinary citizens are paying for a debt they neither contracted nor approved and one from which they did not benefit. If significant constituencies can be mobilized on behalf of an equitable solution, there is no doubt that the resources to put it into practice exist.

The resources exist first because the Third World's total debt is not really very much money in today's world. Odd as it may sound, $1200 billion can be easily hidden in the international financial system. On Black Monday, 27 October 1987, for example, world stock markets lost about $1000 billion (at least on paper) and the world did not come to an end. The US federal debt is over twice that of all the Third World countries put together – and for this reason a far worse threat to financial stability. What is more, only about $600 million of the total southern hemisphere debt is considered 'problem debt'; the rest is being serviced with few hitches.[17] Sub-Saharan African debt in particular could be easily dealt with if the political courage to deal with it were present – first because it represents only 12% of total Third World debt, and second because most of it is owed to public creditors.

Debt cancellation

Many concerned people, including the northern and southern NGOs who convened in Lima in January 1988 and some credible political forces like the German Green Party, have called on creditors to cancel Third World debt once and for all. They have a point. It does, indeed, seem aberrant to ask a democratically elected government to assume a debt contracted by a gang of generals to purchase military hardware or to pay interest on capital which was never invested at all but fled the country instantly for New York or Zurich. Some debt is clearly illegitimate and if, say, the Latin Americans could get together and declare their refusal to pay it they would be well within their rights.

Unfortunately, Latin American governments have so far neglected

[17]Roy Culpeper, *The Debt Matrix*, North–South Institute, Ottawa, Canada, April 1988.

every opportunity to unite. Meeting in February 1990 in Caracas, they again agreed to propose a 'common strategy to reduce the $434 billion in foreign debt owed by the region by 75%'.[18] The proposal was due to be formally approved in June. But it is one of a series of unimplemented proposals emanating from the selfsame governments that, in 1990, pose far less of a threat to the international financial system now that the banks have had ample time to reduce their own exposure. However, if individual democratic governments were to disclose their best estimates of debt accumulated for weapons purchases by their predecessors, or of capital flight that occurred under military regimes, northern citizens would be in a better position to help argue their case. So far, no debtor government has made any such disclosures.

By the mid-1980s the so-called developing countries, in spite of their debt burden, accounted for about $150 billion of the world's annual military outlays, or 18% of the total, up from 6% in 1965. Arms imports were responsible for around 20% of the debts they must struggle to pay back today. Comparisons of military spending *versus* desirable social expenditures have become commonplace – they also effect no change whatsoever in actual budget allocations. It is still, however, worth reminding ourselves that, for example, two days of global military spending ($4.8 billion) could fund the proposed UN Action Plan to halt Third World desertification.[19]

Apart from patently illegitimate debts, should one demand full and unrestricted cancellation for any Third World country that asks for it? This could be a trap of considerable proportions. Cancellation would reward some of the worst and most corrupt tyrants (Mobutu comes to mind) who have borrowed most, rescheduled most, and shared nothing with their people. Similarly, it would penalize governments that have made heroic efforts to pay back on time. Wiping out debts might help cash flow at the beginning, but no source of credit, public or private, would lend soon again to a country labouring under a *de facto* default. We should encourage greater financial independence, not forced autarky for Third World debtors.

Debt and debt service should be seen, too, as only one aspect of total North–South resource flows. If creditors cancel and simultaneously reduce aid, trade and investment by an amount equivalent to or greater than the forfeited debt, the debtor is on square one or behind. But even assuming resource flows to the South were to increase – a wild assumption in 1990 – the crucial question would remain 'Debt cancellation for whom?' Would governments necessarily share the savings with their people? Would the trickle-down process suddenly begin to function in places where it has never functioned before?

3-D solution

Another option exists, which I have called 'creative reimbursement' or the '3-D solution', standing for debt, development and democracy.[20] In this scenario, governments and élites would not receive the *carte blanche* outright cancellation would give them. Debt cancellation would be conditional on its uses. In lieu of hard-currency payments to northern treasuries and banks, local-currency payments into national development/environmental renewal funds would be required. Safeguards would be employed to prevent governments from simply printing extra cash, and payments could be made over long periods. But the key

[18] 'Latin states seek 75% cut in debt', *International Herald Tribune*, 26 February 1990.
[19] Lester R. Brown *et al*, *State of the World 1989*, Worldwatch Institute, Washington, DC, USA, 1989, pp 133–134 and Table 8-6.
[20] The pitfalls of cancellation and the 3-D proposal are more fully argued in Chapter 12 of George, *op cit*, Ref 1, pp 238–243.

to 3-D is democratic management and independent auditing of development/environment funds.

Local people's movements and NGOs should have access to these funds to finance their own projects. The funds could also provide small loans to farmers and entrepreneurs (using the model of the Grameen Bank in Bangladesh, 80% of whose clients are women) as well as pay wages to people for planting trees and combating soil erosion. Insofar as these conditions were accepted and met, creditors could and should add new money to the 3-D funds, particularly to help local popular organizations purchase necessary items unavailable locally against local currency. Debtor governments unwilling to share responsibility for development with their own people in this manner would, naturally, retain the option of continuing to pay interest in hard currency.

Conclusion

At the beginning of the new decade it is possible to add a fourth 'D' to the solution. It stands, of course, for Disarmament. But there is a fifth 'D' as well, and it stands for Danger. When arms spending cuts take place, as they must, the so-called 'peace dividend' may be squandered or simply used to limit the huge US trade and budget deficits. The pull of Eastern Europe may be so strong that the Third World is simply forgotten and its debt crisis allowed to fester. Already it seems that 80% of humanity counts for nothing in the eyes of some economists. In a long cover story on the international economy entitled 'The coming global boom', published in late 1989 by a serious American magazine, the Third World was not mentioned once. 'Global' means North America, the European continent, plus Japan.[21]

Debt, now one of the major contributing factors to hunger, could become an instrument of genuine democratic development and human liberation, not of oppression and despair as it is today. It we really want to end this crisis equitably, the resources exist and the sums involved are not especially large in today's terms. But there is absolutely no guarantee this will happen because debt is not really an economic but a political problem. New, debt-derived resources enabling people to combat their own hunger and misery through their own projects and their own efforts will only become available when enough people demand it, in the North and in the South. If people demand nothing, the International Monetary Fund and the World Bank, acting on behalf of the creditor governments and banks, will continue to impose policies that are draining the lifeblood of millions. Hunger will grow worse.

In the Declaration of the Rights of Man and the Citizen decreed by the French National Assembly in August 1789, Article XV states: '*La société a le droit de demander compte à tout agent public de son administration.*'[22] 'All public officials are accountable to society for their administration.' It is time for citizens of the North and the South to unite and to insist that the debt managers – national and international – at last be called to account.

[21]Charles H. Morris, 'The coming global boom', *The Atlantic*, Vol 264, No 4, October 1989, pp 51–64.
[22]*La Déclaration des droits de l'homme et du citoyen*, L'Assemblé Nationale, Paris, France, 1789.