THE DEBT CRISIS: WINNERS & LOSERS

by Isebill V. Gruhn

By now the origins of the debt crisis—too much borrowing by Third World countries and too much lending by banks and industrialized nations—are reasonably well understood. What has only just begun is a flood of scholarly articles and muckraking journalism about the collusion between various parties pursuing narrow profits rather than the wider public interest.

It is perhaps both natural and understandable that most of these analyses and commentaries are focusing on the complexity of the problem and offering complicated cures. After all, the number and variety of countries in debt is large and growing. Similarly, the number of public, private, bilateral, and multilateral institutions involved in the crisis constitutes a mind-boggling alphabet soup. The jargon too is forbidding. There is financing and refinancing, scheduling and rescheduling, Special Drawing Rights and Structural Adjustment, to mention only what every newspaper reader has to struggle through. And there is the umbrella term *conditionality*, which, of course, is difficult to understand in the intricate detail of its application, implementation, and implication.

However, behind all the intricate technical analyses, economic jargon, and frantic debt-rescheduling activities lurk some very simple questions: Is conditionality anything more complicated than the "haves" setting conditions for those who "have not"? And is it really in the interest either of the West or of the Third World to continue a system that benefits the few and the corrupt, that does not contribute to long-term stability, and that amounts to little more than a modern version of colonialism?

In the 1970s many countries borrowed more money than they should have and more than they could be expected to repay, given the productivity of their economies at the time of borrowing. Others, who borrowed sanely and within a range compatible with their economies at the time, found that such events as the global economic slump and increasing interest rates turned their prudent borrowing into unmanageable debt. All the while Western banks were eager to loan petrodollar surpluses. *Both* heavy borrowing and heavy lending, therefore, produced the crises.

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Enter the International Monetary Fund, that specialized branch of the United Nations system founded after World War II to ensure that currencies remain stable and interchangeable. The IMF aids countries if and when they run into balance-of-payment difficulties, essentially bailing out a government so that it can meet its debt payments. From the perspective of the debtor country, the IMF not only allows it to repay some of what it owes, but in some cases to continue to buy things that are beyond its means. From the perspective of sellers and lenders, the IMF provides safeguards and serves to promote more sales and loans that, in the absence of IMF backing, would constitute bad business practice. In effect, the IMF often makes the world safer both for bad sales practices and for ill-advised or even corrupt practices on the part of states whose income is insufficient to support its purchases and loans.

The IMF's sister institution, the World Bank, is also involved. The World Bank was created as a loan agency to assist governments in financing development projects. On the whole, World Bank loans have been large ones: for building railroads, highways, hydroelectric plants, and the like. Since such borrowing from the World Bank constitutes a form of importing and may contribute to trade imbalances, it often results in the need for a loan from the IMF. Once the IMF enters this picture, a second issue arises, namely, conditionality. For justifiable reasons of its own, the IMF seeks to impose IMF financial management on borrowers. It sets such conditions as devaluation of the currency, import controls, and others, which the country must accept before it can secure IMF support. The World Bank and other donor agencies, in turn, set the further condition that they will not do business with a country unless it meets IMF conditions.

THE FRIENDLY HELPER

Starting in the mid-'70s another group of actors entered the picture. Many developing nations borrowed not so much from the World Bank as from private banks. These banks were anxious to place Arab oil money where it could command higher profits than in their home countries, even though there was greater risk. Because of the IMF, however, the risks were not so great as appeared. In fact, the involvement of private Western banks in lending to the Third World transformed the IMF, for all practical purposes, into a collection agency and a safeguard for private banks.

Western governments justify this changed role of the IMF because the collapse of Western private banks would constitute a real economic and political danger to the international monetary and trading system. For example, the dozen U.S. banks with the largest outstanding international debt receive, on average, about half their profits from overseas loans. For some banks the figure is closer to two-thirds. Since massive Western bank failures clearly would be bad for everyone, Western taxpayers and the poor of the Third World are forced into the position of shoring up Western banks.

Let us take, as an example, the extreme case of Zaire. Zaire's external debt is in the neighborhood of $7 billion. According to one analyst, that amounts to roughly $240 for each man, woman, and child in the country. Zaire's estimated average per capita income is about $130 a year. Any intelligent, sensible Western bank officer, we say, should be able to see that the lending policy which brought this about borders on the absurd. But the policy is absurd only from the perspective of the citizens of Zaire. From the perspective of private banks, some Western governments, the IMF, and the current government of Zaire, it all makes good sense. First, Western banks lend to governments at interest rates higher than domestic rates. The extra profit is well worth the extra risk, especially since the risk is minimized through the friendly help of the IMF. Second, Zaire has mineral resources, and the IMF team advising (or dictating, as some would say) Zaire's policy makes sure that profits from Zaire's mineral sales are used first and foremost to repay Western bankers. The bankers keep the loan spigot open enough to allow Zaire to buy the technology, fuel, and other necessities for keeping mining production at a high enough level to repay the next round of interest to Western banks. Finally, the circle of reinforcement is completed: The profits from Zaire's exports go to maintain a high level of graft and corruption among government officials of Zaire, their families and supporters. In fact, a good case can be made that Zaire's export profits are merely circulated back to Zaire in the form of bookkeeping entries, and huge payments to government officials are frequently deposited directly into Swiss bank accounts or used for the purchase of Western real estate and business interests. As John Stockwell, a long-time CIA case officer in Africa, states in the September, 1984, issue of *Harper's,* the United States "has run the country into a debt of $6.2 billion—money that was spent on the multinational corporations, not on the people. In [Zaire] today, 25 per cent of the people are starving, while Joe Mobutu has a personal fortune of about $4.5 billion."

Countries such as Zaire owe so much that they are lucky if the sales of their natural resources meet interest payments on past loans and keep the channels of corruption sufficiently greased to ensure that the government remains in power. Even a government less callous than that of Zaire would have, under this system, little left to feed its malnourished, often starving population, not to mention what it needs to make improvements in health, education, and sanitation, as well as to engage in long-term development planning.

Jacqueline Chwast

ECONOMIC COLONIZATION

It is frequently argued, and with some cogency, that Third World governments which have overextended themselves in the past require discipline—that is, IMF intervention and conditionality—to foster more prudent national economic management in future. Thus IMF loans and bail-outs are given to keep the international system stable, and IMF conditionality is prescribed to guarantee that the debt crisis of the 1980s will be overcome and not repeated. The problems with this line of argument are numerous, but two merit special attention: (1) the widening, over the long term, of the gap between rich and poor nations, and (2) the implied acceptance of recolonization.

First, it must be conceded that the system guarantees ongoing profits and solvency for Western banks and effectively guards against major international destabilization. From the perspective of short-term Western interests the system works. From reading the Western press and listening to Western economists, one often gets the impression that this is sufficient defense. Whatever its imperfections, the critical test of IMF policy and action is the general health and stability of Western banks and the international monetary system.

Indeed, no one would argue that the collapse of Western banks and the banking system is in anyone's interest. Yet, if it matters what kind of world we live in, should we be so sanguine about the widening gap between the haves and the have-nots? After all, the general wisdom emanating from the U.S. system, from bilateral and multilateral development agencies, and even from the rhetoric of the IMF, is that some way must be found to transfer resources from industrial states to the Third World for long-term global political and economic stability. The current loan system, rather than constituting a transfer of resources to the less-developed world, appears to be transferring resources out of poor countries into the coffers of private banks in the West. Moreover, these transfers are underwritten by taxpayers of the world through national guarantee systems such as the Export-Import Bànk and such international mechanisms as the IMF. They are also underwritten by the poorest citizens of the underdeveloped nations, who are being deprived of the benefits of their national resources. These benefits go instead to foreigners and to a few select nationals who have become the accomplices of outside business interests. Citizens of these countries see few if any of the fruits harvested from the huge borrowing that was supposedly undertaken in the name of development planning.

Though this first problem raises questions not only of economics but of ethics, the second problem is even more clearly an ethical problem. Roughly speaking, forty countries, many of them African, have found themselves in the position of having IMF finance teams move in to take over treasuries and/or central banks. These teams do not just tell governments what policies to pursue in the future. They also insist on personnel changes in ministries. The policy conditions set by the IMF for a bail-out are often widely discussed, criticized, analyzed, and even sometimes moderated. However, the conditions that a country must endure by accepting an IMF team are usually kept secret, and may even be denied by the parties concerned. In effect, what we have, especially in Africa, is a form of recolonization—this time not by individual governments but by international agencies.

THE HOME TEAM

In most cases governments are willing to accept this because it keeps them in power. If a government happens to assume a posture of defense, it will hire its own teams of advisors. Such firms as Lazard Frères and Lehman Brothers then serve as defense counsel, so to speak, for the debtor country in its dealing with the IMF and Western banks. Naturally, the cost to the government is high, though exactly how high is not known, since these firms do not make public either who hires them or the sums paid for their services.

What we have, then, is a massive international game: Banks make profits, investment and consulting firms make profits, and national elites, tempted by the same profits, get caught in a maze of commitments and obligations. With the noose tied tightly around their necks, fewer and fewer viable choices are available to nationals in the poor countries. Corrupt ruling elites have bartered away the latitude within which to make national decisions, set national priorities, and think through the long-term needs of their societies.

In short, what is at issue in the debt crisis is more than good critical judgment on the technical economic questions of rescheduling or conditionality. At issue are the fundamental questions we asked in the beginning: Is it really in the interest of the West to maintain and foster a system where resources in the aggregate flow from the less developed to the developed societies rather than the other way around? And to what extent is the assault on these countries' sovereignty tantamount to a form of recolonization? International bureaucrats, Western bankers, and financial management consultants may appear to be ministering to the needs of Third World countries, but one wonders whether the effect of their colonization is any less offensive, unethical, and, in the long term, counterproductive for national development in the Third World than that of earlier colonizers. WV