THE DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES
The Development GAP
1010 Vermont Avenue, N.W., Suite 521 • Washington, D.C. 20005
Telephone: (202) 638-2600

Prepared by Fantu Cheru, with Doug Hellinger and Kelly Yencer,
for the Debt Crisis Network, December 1984

SOLUTIONS TO THE DEBT PROBLEM

The poverty and economic dependence of the nations of the Third World are an integral part of the present world economic order. This is not because the resource transfers to the poor nations are too small in quantity. More basically, it is because these transfers take place within the context of a world economic structure which leads all the time to increasing inequality.

At the international level, global economic recovery is unlikely to take place in the foreseeable future so long as the debt crisis continues to strangulate Third World economies. Both western governments and creditors must share the responsibility for the Third World's sudden indebtedness, which resulted in part from historical circumstances and from the developed contries' shifting to the LDCs of an excessive share of the burden of adjustment to the world economic crisis. The banks have contributed largely to the increasing indebtedness of the Third World by imposing exploitative and extremely profitable terms of reschedulings on short-term loans contracted at floating interest rates which have remained high as a result of the recession and high U.S. budget deficits. Many Third World governments -- particularly dictatorships unrepresentative of their people but supported by Western powers -- are also responsible for the current situation as a result of large irrelevant or counterproductive investments they have made or guaranteed.

In view of the critical financial difficulties of many developing countries, the creditor nations and institutions should urgently consider specific short-term, medium-term and long-term measures aimed at reducing the debt burden of the Third World. The aim of these should be to hold those responsible for the current situation accountable for their actions (i.e., not place the burden on Western taxpayers and the Third World poor), while attacking the structural problems underlying the present crisis.

I. SHORT-TERM MEASURES

A. Debt Relief

(1) Debt rescheduling schemes should be revised for both official and private debts. Overall, the framework of debt rescheduling should be geared to the support of the growth and development of debtor countries. A moratorium for at least 3 to 5 years on debt servicing of both public and private lenders, including the conversion of a substantial part of the debt service obligations into grants.

(2) The debt services should not be allowed to exceed 15 percent of the export earnings and the Gross National Product (GNP) of poor countries. This would enable the countries to obtain the much needed financing of structural adjustment programmes, thereby improving their credit-worthiness.

(3) Partial cancellation of external debts of developing countries, in particular the least developed countries affected by natural calamities, especially the drought in Africa.

(4) The period for consolidating debt service due be at least five years and repayment period for the consolidated amounts be not less than 15 years, including substantial grace periods.

(5) Measures against rising interest rates.

(a) the present levels of international rates must be reduced to a level not threatening economic recovery in Third World countries;

(b) accumulated arrears in interest payments, especially those resulting from recent increases in the levels of interest rates, should be either written off or converted into grants as a way of reducing the debt.

B. IMF Measures

The IMF should adopt the following concrete measures for balance-of-payments support at an increased level:

(1) Relaxation of its conditionality, taking into account the current serious debt crisis; such measures as currency devaluation often exacerbate rather than ameliorate the debt crisis insofar as export earnings cannot increase significantly over a relatively short period;

(2) A substantial extension of the present period over which IMF contemplates adjustments required to correct the imbalances; a period of 5 to 10 years at low interest rates for such adjustment is required.

II. MEDIUM-TERM MEASURES

In addition to the short-term emergency measures discussed in the previous section, certain action also needs to be taken in order to erase the current debt in an equitable manner. These include:

A. Fair Trade Practices

(1) The industrialized countries should remove the protectionist barriers raised against Third World exports.

(2) In addition, international action should aim at promoting price stabilization for Third World commodities, taking into account the prices of what they import.

B. Shifting the Burden of Adjustment

(1) If Western taxpayers are called upon to help bail out the banks in some manner, they should be compensated directly with commensurate ownership of those institutions; current stockholders, directors and managers should be dealt with a la Continental Illinois.

(2) Rather than placing the burden of adjustment on the Third World poor, responsibility must be placed on those persons and institutions in these countries -- and their Western counterparts/partners -- who actually borrowed the money, made the investments and/or misused the funds.

III. LONG-TERM SOLUTIONS

The long-term solution to the debt crisis should include new methods of international economic exchanges and cooperation between the developing and the developed countries. Just as importantly, however, the export-led patterns of development encouraged in the Third World by Western interests must be changed to emphasize greater regional and national self-reliance, particularly in food. Although Third World governments have ultimate responsibility in this regard, immediate and perhaps primary responsibility rests with Western aid institutions which help shape development policies and structures. Accordingly, the new strategy should emphasize the following:

- strengthening bargaining power of LDCs
- economic regionalism
- increasing national and local self-reliance
- changes in U.S. and multilateral assistance policies

Each of these points can be carried out on a bilateral, regional and global level depending on what is possible and desirable in each case.

A. Strengthening Bargaining Power

Recognizing the multi-national nature of resource transfer, developing nations must find ways to incorporate certain safeguards necessary to protect their interests. Priority must be given to securing firm control over regional development banks and increasing their voting power in the multilateral institutions such as the IMF and the World Bank. In the absence of such reforms, discussions of international development activities in terms of aid, cooperation or partnership is dangerously misleading. It will simply lead to reform proposals which are inherently inadequate.

B. Economic Regionalism

A logical extension of economic regionalism is broader Third World cooperation. This can take a number of forms:

(1) Promotion of regional and sub-regional trade which would involve establishing trade promotion councils, subregional credit and insurance systems;

(2) Establishing subregional development banks to finance production, trade activities and debt payments;

(3) Establishing a variety of preferential economic agreements -- possibly shipping, transportation, energy and trade;

(4) Making a coordinated negotiating position with special reference to tax rates on multinational corporations and investment incentives to accord to them.

C. National Policy of Increased Self-Sufficiency

The fundamental concern of governments in the Third World should be the structural transformation of their respective economies and the elimination of poverty through the establishment of new patterns of production and demand. These would maximize the employment-generating potential of the economy, while simultaneously providing fairer shares for all citizens. They should be designed to lessen dependency on Western markets, technology, expertise and financing, so as to prevent a repetition or deepening of the current debt crisis. In order to achieve this goal, development strategies must be reoriented away from export-led growth toward self-sustained, self-reliant development based on agricultural production and the diversification of national economic activities.

(1) Agricultural and rural development strategy.

The first priority should be given to diversification and intensification of agricultural activities. Special emphasis should be placed on food production for local consumption, as

food import bills mount and Third World countries lose more and more control over their own economic futures. To achieve this goal, relationships must be reanalyzed and the political will must be found to:

(a) reorganize the agrarian structure so that land is distributed equitably and managed and developed in the interests of the entire rural community;

(b) focus attention and resources on the needs of the small and marginal farmers, agricultural laborers and the weaker sectors of the rural population;

(c) expand and diversify agricultural production, including the provision of seeds, fertilizer, credit, extension services and price stabilization;

(d) shift emphasis from export cash-crop production and large-farm (multinational) agriculture to staple food production to meet local needs, increase local self-sufficiency and decrease the import bill;

(e) eliminate various biases in agricultural policy which favor the urban, industrial and agribusiness sectors at the expense of small rural producers.

(2) Other structural changes

(a) in order to strengthen the internal workings of the rural economy, changes are required, including the need for continued and further decentralization;

(b) broad-based participation of the population in the development process must be facilitated. In order to achieve the mass mobilization and active participation of the population, structural and institutional changes would be necessary to afford the weaker sections -- small and marginal farmers, landless peasants, etc. -- a sense of full involvement and to enable them to make their voice felt in decision making and implementation. Without such changes, national policies and decisions will continue to be in the monopoly control of the elite, who have led their countries into the current predicament. In this context, measures which promote overall community development and the development of cooperatives and local democratic institutions which are not controlled by the dominant sectors of the society are necessary among other actions.

(3) Diversification of economic activity.

Besides increasing opportunities in small-scale agriculture, attention must be paid to generating and expanding employment in non-agricultural sectors, providing the local populace with needed goods and services. Required action includes:

(a) the intensification of public works, such as secondary roads, irrigation dams, clean water supplies, rural electrification, rural markets, health clinics, schools and agro-service centers without being tied into the purchase of foreign goods and personnel;

(b) agricultural production, processing, grading, packaging, storage, marketing and transportation, etc., to directly meet local demand and to increase export returns;

(c) encouragement of small-scale village industries based on local materials, technology and skills, encouraging the use of indigenous apprentice systems;

(d) emphasis should be placed on generating income-earning opportunities and needed goods and services in the so-called "informal sector;"

(e) policy initiatives and investment decisions designed to shift local consumption expenditure away from imports and toward locally produced goods and services or those with a high local content. This would save foreign exchange earnings and strengthen the internal workings of the national economy.

D. Changes in U.S. and Multilateral Assistance Policies

The present economic crisis in the Third World is partly the result of failed development strategies encouraged by the West and financed in recent years by banks with excess liquidity. Even if the developing nations were to overcome their liquidity problem in the near future, inappropriate international assistance would continue to prevent structural adjustments required in their economies to lead them toward self-sustained development. Given this reality, it is incumbent upon the United States to take a hard look at the type of economic development policies it has encouraged and financed in the Third World over the past 25 years, and to develop a coherent strategy aimed at strengthening the internal workings of Third World economies.

(1) Stop the use of aid for Western financial purposes.

Aid has been used in most part to underwrite Western financial and direct investments in the Third World and to tie those countries to Western goods and services. This is particularly obvious at this time and must be stopped. Doing so would substantially cut the aid bill in Western countries and diminish many of the distortions created in developing countries.

(2) Support increased national self-reliance.

The elite-led and export-oriented development pattern encouraged by the larger Western donors has predictably led

to an extremely high incidence of dependency on Western markets, financing, investment, and expertise. While serving Western interests in the short-term, this approach has polarized Third World societies and bankrupted their economies. Instead of damning the Third World poor to producing for our needs and on our terms, we need to encourage and provide support for the type of changes which will lead to greater self-reliance -- nationally and among the poorest in society.

(3) Strengthening the institutions of the poor.

In order to bring about these changes, the poor need to be better represented in national decision-making and in the development activities which affect their lives. As many, if not most, government and elite institutions in Third World contries do not represent the poor, it is necessary to channel development assistance through those organizations which do. This is also necessary in order to increase the leverage of the poor on national policy, for the development of new ideas and leadership from the grassroots and to establish self-sustaining development programs.

(4) Drastic reduction of military assistance.

Since the end of WWII, U.S. foreign assistance related to development has declined precipitously while increasing the percentage of military spending. Since 1980, U.S. policy has been concentrated on providing military and security-related assistance rather than on economic aid to Third World countries. This policy is counterproductive to the maintenance of regional peace and Third World economic self-sufficiency because increased military assistance frequently requires an increase in the debt burden of developing nations. It represents an enormous diversion of resources within these countries from the economic, social and political problems they face at home into the military sphere.