The Debt Crisis: Where Does Responsibility Lie?

By Doug Hellinger and Diane Soles

Contrary to the carefully orchestrated statements of the Western financial world, the international debt crisis of the 1980s intensifies with every passing day.

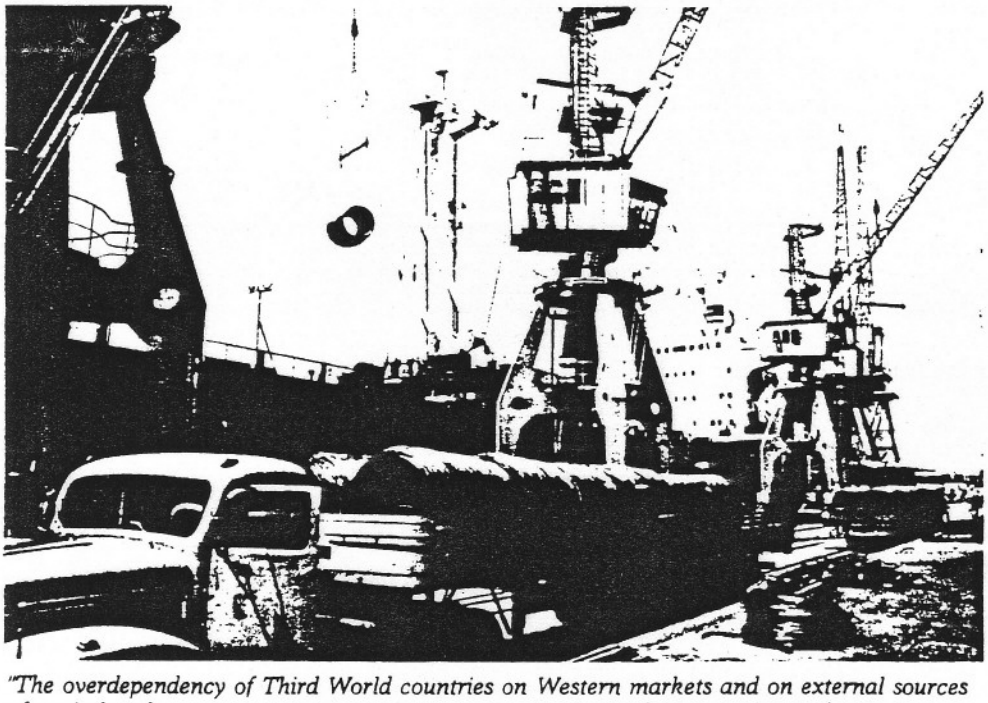
It is not just the solvency of Third World borrowers that is in question, nor the ability of the banks to manage the current situation with a series of marginal measures designed to prevent a string of defaults among the countries of the South. Nor is it just a matter of the grinding, broadening poverty across the Third World that Western economists claim is the price of economic recovery during an unspecified transition period. Underlying these symptoms is a more fundamental problem.

Root Causes

A just and lasting solution to the current crisis is not possible without addressing the problem at its very roots. Established interests in this country, however, have effectively cut off exploration for the origins of the crisis well above ground level. There is general agreement that the rising prices of oil and capital inputs in the 1970s, combined with declining prices and markets for Third World commodities, generated the need for foreign credits in the South at the same time that commercial banks were seeking to recycle petrodollars and make larger margins on their loans. This led to a dramatic increase in Western lending to the Third World in the last decade. The overdependency of Third World countries on Western markets and on external sources of capital and energy was not inevitable, however, but was the result of the promotion of an export-oriented development model by Western aid institutions. In fact, this model has marginalized the poor for decades, allocating scarce resources, particularly land, to produce for foreign markets.

Yet, few have placed responsibility for the crisis at the feet of these institutions. Rather, organizations such as the World Bank, architects of past failed policies and programs, have been given a clear road to continue to prescribe fundamentally the same development approach as in the past.

Many confused liberals viewed the World Bank as part of the solution until it effectively assumed the role of the International Monetary Fund (IMF) within the broad parameters of the Baker Plan in 1985. Structural adjustment policies promoted and often imposed by the World Bank call for austerity for the poor, a further opening of national economies and the allocation of resources to build up an export base at the expense of meeting local needs. According to a 1986 World Bank report, that institution would have the countries of Africa – whose populations are attempting to once again achieve food self-sufficiency (the status quo a century ago under traditional practices of cultivation) – *increase* their exports by 25 percent as part of economic recovery plans.



UN Photo, Allan Tannenbaum

"The overdependency of Third World countries on Western markets and on external sources of capital and energy was not inevitable but was the result of the promotion of an export-oriented model by Western aid institutions," say Hellinger and Soles. Here Brazilian steel cables are being loaded on a U.S.-bound freighter at the Rio de Janeiro harbor. In Brazil, as in other Third World countries, the allocation of resources to build up an export base was at the expense of meeting local needs.

Accountability

Although usually framed in terms of a North-South issue, the debt question is fundamentally one of class. The small elite and middle classes of the South have done well over the past "development" decades, as their Northern counterparts in development and financial institutions directed resources to opening and modernizing Third World economies. With land ownership kept skewed and wages low, the poor and working classes shared little in this modernization process and remained unempowered to do much to alter the course of events. When oil prices skyrocketed and the terms of trade shifted toward the North, it was the already wealthy and well-placed who borrowed from Western bankers for development projects, military hardware and other purposes that did little to improve – and often exacerbated – the situation of the poor. After the skim-offs were taken and the dust settled, it was the poor who were forced to pick up the tab, as the international

financial institutions, commercial banks and governments shifted the burden onto those least able to fight back. The only problem became one of keeping the lid on social unrest.

It is most curious and distressing that so little attention has been focused on those responsible for this crisis. Accountability is a concept that does not seem to apply to those who control resources and possess the power to determine the parameters of the public debate. Many of the loan officers who made poor quality loans without sufficient analysis – relying instead on government-guaranteed repayment – have moved on to better jobs, while their banks continue to make large spreads on outstanding loans and receive tax breaks on anticipated losses. Third World elites (including government officials), who, through fat contracts, inside land deals, kickbacks and false invoicing, gained hundreds of millions of dollars from Northern-financed projects (which often displaced rather than benefited the poor) rarely assume any of the burden of structural adjustment policies. On the contrary, a not insignificant portion of the debt (a reported 50 percent of Mexico's obligations alone) is sitting in private accounts in Western banks, while new government and donor projects designed to earn foreign exchange open up new opportunities for these insiders.

It is the supreme irony that, as mentioned above, the World Bank and other donor agencies have emerged center stage to apply their medicine once more to their ailing patients. These agencies conveniently have forgotten having promoted and supported the very public-sector spending, parastatal institutions and industrial emphasis that they now criticize in various countries. While these aspects of policy may no longer be in vogue, export-led growth – the basic formula for enhancing Western trade and investment – still is being promoted, this time from a position of increased leverage and strength. Contrary to the illusion created by the World Bank's current rhetoric on poverty, on non-governmental organizations (NGOs) and on the environment, between one-third and one-half of the institution's expanding loan portfolio will consist of structural-adjustment[1] and sector-lending.[2] High levels of non-project financing are designed to help commercial banks get their money out of the Third World while providing the added leverage to accelerate the shaping of national economies.

The banks, realizing that full Third World payment of its trillion-dollar debt is not possible, are stretching out the repayment process in the hope of minimizing and passing on some of their expected losses. The Baker Plan was hastily designed two years ago not so much to stimulate additional commercial lending (which it did not do) as to create the illusion that it would so as to head off the emergence of a debtors' cartel and create a base of support for the expansion of official lending. The banks' scenario is to use increased capital flows from institutions such as the World Bank ($21 billion projected annual loan commitments by 1990) in combination with increased Third World export earnings, the occasional debt-equity swap and loan write-down, various forms of tax relief and assorted other measures. All of these will diminish the extent of the banks' exposure overseas to apparently manageable proportions by the end of the century. A favorable political solution can then be worked out.

To those worried about a collapse of the world financial system and the shrinking of international economic growth and trade, this would be good news. But to the poor of the Third World – and for the long-term development of their countries – this strategy spells disaster. Those who had least to do with the making of the crisis will continue to pay the highest price, as donors and governments enforce austerity among those most vulnerable. While domestic resources are diverted to produce for foreign markets, reductions will continue in employment and wage levels, in subsidies on food, transportation and other essentials and in basic services such as health and education. If poverty levels across much of the Third

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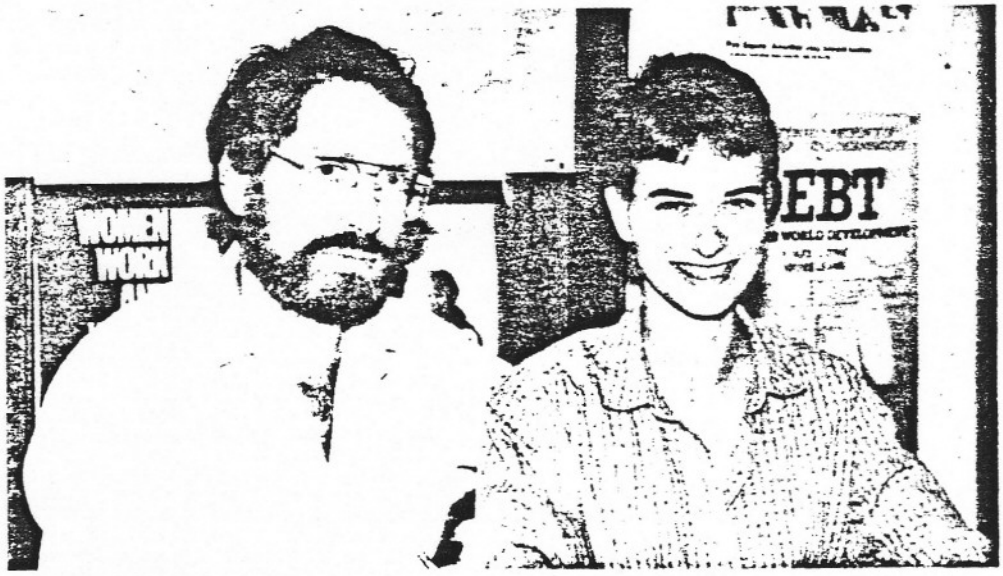

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[1] Structural-adjustment is bank lending designed to help governments with their balance-of-payment situation conditioned on national level economic policy reforms.

[2] Sector lending is non-project lending earmarked for investments in particular development sectors (e.g., urban, agricultural) linked to policy reforms within those sectors.

World now match those of a generation ago, so does our development thinking. For despite all the sacrifice and suffering we will witness through the remainder of this century, the countries of the South will be even more immersed in an international system in which they will be increasingly vulnerable to external variables that they cannot influence or control.

Compounding the Problem

As was the case with the African famine, the pictures of the victims of this crisis will evoke sympathy and compassion from those of us in the North while hiding the true causes of the suffering. Glimpses of Northeast Brazil, where malnutrition is creating a generation of dwarfs and where diseases long extinct have resurfaced, may generate some charitable giving but little public analysis. Ever-increasing amounts of food aid will be poured into Africa and parts of Latin America in the self-deluding belief that the suffering is necessary and transitory in nature, imposed by our own Northern institutions for the good of the poor of the Third World. NGOs and other members of the development industry in this country will find new cause to apply their "expertise" in utilizing official aid money to carry out compensatory assistance programs aimed at some of the victims of these very aid institutions.

This process already is underway. Donor agencies now may be discussing "adjustment with a human face," but the burden of adjustment will still fall on the poor. Similarly, NGOs, Northern and Southern, are not being asked to provide input for the formulation of the policies that dramatically affect the people with whom they work, but rather to help clean up the mess created by the imposed austerity. In countries from Morocco to Bolivia, NGOs are being invited to assist governments, the World Bank and other donors to deliver food and other forms of compensatory assistance to keep the political lid on potentially explosive situations resulting from adjustment programs. The government of Ghana, for example, recently asked the World Bank for significant levels of emergency assistance directed at local levels as the price, in essence, of continuing with the World Bank-designed adjustment program. Consideration is currently being given to the recruitment of NGOs for this task.

Enticed by the donors to participate in these programs, NGOs may feel they are contributing directly and immediately to the lessening of human suffering. However, as long as economies are being structured to serve the interest of those other than the poor, while strategically-placed compensatory programs are being designed to keep popular expression of discontent under control, NGO cooperation today may well mean further impoverishment and political polarization tomorrow. Many NGOs and other organizations working at the grassroots, which should be advocates for and with the poor, have given little thought to the effectiveness and morality of the policies they are being asked to support. Intimate association with large donor policies will compromise NGOs in the eyes of local populations, while making it even more difficult for non-governmental groups to challenge those policies and institutions in their own countries.

Challenge from the South

NGOs and others in the South have been intensifying their call to their friends and counterparts in the North to address the draconian policies, programs and other actions of Northern-dominated institutions that dwarf the impact of micro-level projects. In the area of the debt, Northern proponents of social justice and sustainable development must see beyond the narrow parameters of the current debate. For the purposes of effective development education and policy advocacy, we must insist that core issues be addressed.

As the debt is, in fact, a manifestation of a development crisis, the aid institutions that promoted the policies and programs that underlie the crisis must be challenged. Progressives and liberals might join with conservatives, for example, to campaign against International Development Association replenishments and International Bank for Reconstruction and Development recapitalizations. This would reduce the leverage of these World Bank Group organizations as they promote export expansion as the solution to the current problems of Third World economies. Programs supporting increased food self-reliance, industrialization with strong linkages back to a diversified agricultural base and, in general, inward-, rather than outward-looking development solutions, should be at the center of any aid strategy. Such an approach decreases import needs while encouraging the continued emergence of creative alternatives from among the poor themselves.

An alternative and perhaps more constructive challenge to these aid institutions would be an insistence that they actively consult farmers organizations, trade unions, women's groups and other local NGOs in the formulation of structural adjustment and other development policies. Such requirements are part of Africa aid legislation (that applies to the Agency for International Development) currently under consideration in Congress and are central to the NGOs' position in their current dialogue with the World Bank.

Like the donor agencies, the other major contributors to the crisis must also be held accountable for their actions. Hundreds of billions of dollars have been wasted or stolen, and yet there is little demand that the original monies be tracked to determine who should repay the loans. The limited work done in this area has been carried out by unofficial sources and with much difficulty. One promising area for action would be a worldwide attack on bank secrecy laws that now effectively permit the hiding of a good portion of the debt that is in the hands of Western banks and Southern elites. It is indicative of the nature of the debt debate, however, that food is being taken from the mouths of the poor while there is hardly a suggestion that banking laws be changed to recover the billions that have been ripped off. If this or other such measures threaten the solvency of our major banks, some form of public takeover in return for government assistance is an option. Neither Northern taxpayers nor the Third World poor should be bailing out these banks from the consequences of their misjudgments of the past.

Conclusions

It is time to get serious, to live up to our own responsibility to help carry a grassroots Third World perspective into education and policy circles in this country. The poor are being taxed for a problem that they did not create within a development paradigm that has not served, and has often undermined, their interests. Such measures as compensatory programs, loan write-offs and the narrowing of interest spreads will do little to reverse that paradigm and get to the core of the issue. In fact, the price extracted for such measures may be greater austerity and exportation of national resources.

There is a crisis in the system that creates an opening for us to challenge conventional wisdom and the ruling paradigm. Do we have the courage and integrity to do so? ■