International Debt Crisis - I

The International Debt Crisis: A Socio-Political Overview

--reading: H.Cleaver, "Close the IMF, abolish debt and end development: a class analysis of the International Debt Crisis"
--Bruce Cockburn, "They Call it Democracy" (song)

Origins of the Debt (that would go into crisis)

--sources of demand for borrowing
--the demand for borrowing large sums of money *overseas* derived from
--inadequate internal savings for investment
--partly due to diversion to non-investment ends, e.g., C of poor **&** rich, capital flight
--partly due to widespread poverty
--urgent need for the control of troublesome workers, students and peasants
--money needed to pay for the tools of repression: police & military training and equipment
--money needed for consumption subsidies to some (but never to all, thus income hierarchy)
--this point not brought out in Cleaver article
--money for investment for "development" to absorb and harness working class energy
--sources of money that could be borrowed
--major source in 1970s: OPEC petrodollars, most of which were placed in Western banks
--petrodollars resulted from dramatic increase in oil prices, international transfer of value
--increases result of OPEC countries needs for development and repression (like borrorers)
--need for development function of "modernization", cope with workers demands w/$
--need for repression: local police (Savak) and regional military power
--increases also allowed by Western Powers which had frequently intervened before
--Europeans blamed Americans for seeking competitive advantage
--US policy makers (e.g., Trilat.Comm) saw opportunity to resolve supposed problem of capital scarcity in the the US (alternative: abolish Social Security)
--immediate source of crisis: higher interest rates
--throughout 70s IMF et al had called for major anti-inflation offensive (anti-wage offensive)
--Carter finally launched this offensive with Volcker who tightened money and raised interest rates
--this required financial deregulation, removal of ursury caps on interest rates, attack on C credit
--by this time most international loans were floating rate loans, so k of US i $\Rightarrow \uparrow$ of LIBOR $\Rightarrow \uparrow$ of interest rates on virtually outstanding international loans, including those of big debtors
--immediate source of crisis: collapse in export possibilities
--big increase in interest rates cut investment and consumption expenditure and precipitated first a US and then a global depression
--global depression meant huge drop in demand for imports, thus depression for exporters

Continuation of Debt Crisis

--failure to repay
--the big increase in the costs and debt coupled with reduced possibilities of earning the foreign exchange necessary for repaying the debt meant crisis
--initial crisis handled by rolling over debt, borrowing more (more debt) to pay off old debt
--failure to impose IMF conditionality
--access to roll-over borrowing came to depend on sanction from IMF, bank consortium would only roll over debt if IMF said OK there appears to be some change you will get paid back
--this gave IMF leverage way beyond that implied by its own resources
--with this leverage it imposed "conditionality", e.g., cut imports, cut budget deficits, cut C, cut w
--but creditor countries and businesses found great difficulty in imposing these conditions
--time after time countries failed to achieve the goals agreed to with the IMF
--thus constant renegotiation of debt
--failure to generate growth
--IMF conditionality always depressive, result was underdevelopment, not growth
--this generated a lot of opposition from business and economists as well as workers