The International Debt Crisis - II

The Explosive Emergence of the Debt Crisis

--reading: "The Debt-Bomb Threat"
--reading: "The Third World threat to the West's Recovery"
--reading: "Austerity Pushes Brazil to the Brink of Social Upheaval"
--reading: C.Herold, "Assaulting the Heavens: Class Struggle and the Brazilian Debt Crisis"

The Debate over the IMF Solutions to the Debt Crisis

--reading: annotated bibliography on this subject
--reading: "IMF Austerity prescriptions could be hazardous"
--reading: IMF's Camdessus defends, "Fund Policy on Adjustment & Financing"

Debt "Bomb? ⇒ explosion?

--default would ⇒ collapse of debtor country economies, ↓ GNP
  --↑ interest rates ⇒ ↑ interest payment on debt ⇒ ↑ debt service ratio (i repayment/export earnings)
  --less profits available for investment k contraction of I, GNP
  --likely austerity to follow, ↓ C as well as I, GNP
--default would ⇒ collapse of creditor country economies, financial systems
  --↓ debtor M's would ⇒ ↓ creditor X's ⇒ ↓ GNP
  --collapse of creditor financial system
    --danger of chain of defaults
    --big, highly exposed banks
    --loan loss reserves only = 12% of exposure
    --failures to collect already ⇒ ↓ p
    --failures to collect already ⇒ ↓ share values
    --collapse would require FED to provide $ to creditor banks in trouble
--dangers of *social* explosion
    --in debtor countries: in response to contraction and subsequent austerity
    --in creditor countries: in response to contraction and subsequent austerity

Solution Possibilities

--reschedule and roll over debt
--debtors default or creditors write off debt
--reduce debt (lower i, longer repayment)
--increase loan loss reserves
--create secondary market for debt and let value decline

Actual Solution

--reschedule and roll over debt which ⇒ MORE debt, often with HIGHER interest rates
--condition for roll-over = continued payback ($100s of billions paid back in 1980s, 1990s)
--IMF Conditionality: austerity
--FED ↑ money supply somewhat allowing i to fall somewhat (still high but not SO high)
  (also decrease in interest rates for Consumption k partial reversal of SS policy)
--all this bought time to cope with social/political relations
--eventually (1987) Citicorp increased loan loss reserves (admitted debt would not be fully repaid)
--eventually (1989) IMF accepted some debt reduction

Case Study: Brazil

--policy shifts result of grassroots/working class antagonistic opposition to govt policies
--policy reversal in 1974 after initial austerity reaction to 4X ↑ oil prices
  --reversal reaction to election loss, popular grassroots opposition to military regime
  --result of reversal was rapid build up of Brazilian debt, laying grounds for crisis, lots of money for C
--policy reversal in 1979 after second oil price shock
  --reversal was a reaction to reemergence of labor movement in ABC
  --result was deepening of debt and continuing difficulty in repayment, cont'd crisis

--debt moratoria in 1987
  --due to delay in imposition of austerity due to govt fear of reaction in elections
  --this resulted in failure of Cruzado Plan and refusal to pay debt

Debate over the IMF

--critiques of IMF "conditionality" and "structural adjustment" programs are of several sorts
  --compaints that the wrong people are being made to pay (not those who borrowed money); that debt repayment is used as an excuse for anti-labor, anti-consumption changes in policy; that while it may make sense for one country to reduce imports and expand exports, this can not be pursued by all, it is simply impossible and damages world trade; that the net effect is depression rather than restoration of economic growth

--IMF responses: programs DO improve balance of payments, in long run WILL restore conditions of dev.