

The DEBT, the IMF/WB

IN THE CONTEXT OF SOLIDARITY SOCIOECONOMY

Oscar Ugarteche

Pontifical Catholic University of Peru

The debt issue has returned to remind humanity that the solutions posed during the 1980s have been to no avail. The result of the 1980s crisis was the transformation of the WB as a political party that financed Governments, gave it technicians and a political platform to follow in order to be elected or reelected, as long as the road map followed. It was a political party mainly of the US Treasury with the support of the G7 countries altogether for the benefit of transnational capital and strengthening global capitalism that was taking on a new shape because of the very low rates of increase in capital productivity, in face of rapid technological change and increasing competition. The consequence of this was increased financial activity, speculation and capital mobility in order to compensate for lack of real sector profits. This required a new set of rules of the game for global capitalism than would help to concentrate income that has had as end result a financial bubble that burst with the same consequences as in previous periods, 1930, 1870 and the 1820s. Some elements perceived are rapid transformation of net resources transfers from positive to negative, a depression in the prices of raw materials, and an increase of the cost of capital for developing countries as a result of increasing country risk while undergoing a world recession/depression, a world deflation and the recognition that the productive paradigm based on knowledge has reached a turning point.

The symptoms of the problem, we could call it the Millennium Crisis, are expressed by the data from the collapse in stock exchange indexes. The Tokyo Stock Exchange being the first to fall starting in 1990, all major bourses have seen sharp drops ranging from 30% (Dow Jones, New York December 1999 to April 2003) to 75% (Tokyo Nikkei Index June 1997, the Russian Crisis 1998, The Brazilian Crisis 1999, the Argentinean Crisis 2001).

The consequence of this on the result of the world can be viewed in the failure of the promises made by the IMF/WB and other orthodox economists that assured that the implementation of what we know as neoliberal polices would result in an increase in the rate of growth, a reduction of external credit dependence, a surplus in trade and an increase in domestic savings. The conditions set for this were that the developing countries follow the ten points indicated by the Washington Consensus plus one

further point added by the Theory of Public Choice in terms of reducing the State to as little as possible. Williamson stated recently that he did not appreciate that as a recommendation in the list of the policies to be pursued, which had consensus in 1989. The reduction of the State is present in the 1987 World Development Report of the WB as part of the set of policies that were later discussed for the Consensus.

The debt problems must be then seen as an instrument for the introduction of policies and an extortion of Governments into following them, if they resisted. Once agreed upon, the financial support appeared swiftly. This is called coercion in legal terms. The solution sought under coercive treatment did not appear, however, and neither did growth recover a stable rate, nor would whatever real growth occurred if the money generated from privatizing public enterprises not been recycled inside the domestic economy in the form of current expenditures and some investment. This has given way to massive corruption known in the field as new corruption, phenomenon that has been studied in Russia, China, Viet Nam, Czech Republic and Peru. This is a phenomenon where economic growth results from the use of funds from the central government outside the normal appropriations procedure, as normal Government expenditure must pass. Instead what happened was that the population lost faith in the policies and the possibility of implementing them further has reached a limit. There exists a governance problem now, as more and heads of State try reaffirming their commitments to the policies signed with the IMF/WB with the effect of losing their representation. The cases of Bolivia, Ecuador, and Peru today, or the counter example of Lula being elected in Brazil in the hope of something new that is not happening, or the election of Kirchner in Argentina resulting from displacement of the three heads of State by the population out in the streets, makes the case.

In that light, it must be recognized that the debt issue and the economic policy issue attached to it, are back on the table. From the point of view of a new solidarity on a socio economia solidaria, the debt could be used once again for the same purpose, except this time for policies that have proper consensus by the majority of the world population: Those that center on economic, social and cultural rights. The argument for this is that Governments must be held accountable and civil society can monitor conditionalities placed by the population reflected in international agreements. The instrument to this end to be used, would be again the debt. This requires a reform of the WB/IMF and a change in their charters, where respect to human rights in all its dimensions come in front. Their failure during the 1980s and 1990s as well as their support of dictatorships in the name of the neutrality of technicians and efficiency, warrants the request for the reform of these institutions. They passed from Project based lending to Policy based lending in the mid 1980s without recognizing their failure in project based lending and the problems they had generated with them. The next step is from Policy based lending to Human rights based lending with recognition of the mistakes made and the

failure of the promise to be made real. The existing globalization resulting from these are rejected en masse in the streets everywhere.

The failure of the IMF in controlling inflation during the 1980s while pressing the Latin American and African Governments to transfer resources to the North, thus further impoverishing them. Their renewed failure currently, supporting Argentina and other Governments into issuing new expensive bonds for the payment of old Brady cheap bonds is leading them into default situations. This is the case of Argentina which was supported in its fixed exchange policy by the IMF who gave them a certificate of good behavior in order to float tens of thousands of dollars in bonds in New York during 2001, support that was kept until one week prior to default. This calls for a request of a major reform of the IMF. The success held in the field of controlling inflation is not accompanied with success in managing the external debt. This failure is more evident now with the Millennium Crisis in place.

The weakness of the United States hegemony and the breakup of the G7 monolithic unity around the US middle east policies, reforms may be introduced in the IFIs that may reflect the need of the world population. The first one is to recognize the debt problem has been dealt in such a way that the results so far are that countries continue to have a debt problem but that now the institutions created for this solution do not allow renegotiations or have any flexibility to bypass the international rigidities that are pressing both developing and developed nations, alike.

Debt management and its newly created inflexibility. The application of the Brady Plan after 1989 for middle income countries led to the conversion of debt held in floating rate notes into bonds at a value that included the capitalization of all unpaid interest between 1981 and 1990, more or less to seventeen countries. For these seventeen countries, the debt had more than tripled just as a result of the capitalization of interest given the high rates in the United States during the early part of the 1980s. The debt was converted into bonds including amounts far too high to be sustainable or ethical, without any revision as to the quality of the loans leading to the recognition of what are considered odious debts (related to weapons sales to dictatorships) and corrupt loans (including those for projects that never worked). Bonds are not renegotiable and contrary to what orthodox theory sustains, new loans are granted to pay off old loans and the interest rate has started to increase for countries that do this leading the well known path already followed during the 1980s into cease payments and open conflict between debtors and creditors. Creating a new environment for debt negotiations is the first step for another world the Club of Paris and the Club of London have both failed as negotiations is the first step for another world the Club of Paris and the Club of London have both failed as negotiation spaces and conditions imposed by them for the repayment of their debt. At the same time, it is necessary to realize that in a global world, a global low must exist for financial institutions. Currently creditors

have their own law and mostly use the New York and London law for international credits while at the same they promote globalization. So they believe globalization is fine as long as everything is globalized except the rules of the game. This cannot continue in to the future of the capacity to impose the law will be lost or further coercive mechanisms must be developed.

The IBASD (International Board of Arbitration for Sovereign Debt) would come to replace both the London and Paris Clubs and would include the debts of all multilateral institutions as well, in such a way that no free riders would exist and all creditors would have the same terms for the payment of their debts, which is essential for the proper functioning of an international financial community. What has occurred so far is that Governments and Banks renegotiated their debts during the 1980s and during the 1990s, when debtor Governments face problem, they borrow more money from multilateral institutions that in turn do not reschedule debts. The situation as it stands now is that money owed on bonds cannot be rescheduled, that owed to G7 Governments cannot be rescheduled either due to the terms of the exit agreements signed in the last Club of Paris agreement during the 1990s and multilateral debt cannot be rescheduled either. The rigidities of the existing system is a new negotiating space composed of jurors that represent creditors and debtors and that have as a responsibility that of revising all debts and pointing out the invalid ones to take them to the International Penal Court for due processor devolving them to the creditors because they are invalid, thus leaving the real debt, that is legally sustainable to be rescheduled and resized to be made payable. The elements provided by Prof. Raffer are to be taken into account in the sense that social expenditures must be protected and civil society must be present and represented at the Court.

Those countries referred to as HIPC countries should also use this mechanism and their adjustment of the size of the debt be done in proportion to the debt payment capacity. If this includes 100% write off because the economy is under 700 USD per capita, the write off should be done using as the only possible set of conditions those described above. The write off would be after revising the validity of the debt.

The new policies after revising the lessons from history, it is clear that economic growth in order to be sustainable must be balanced and that the domestic market is as important as the external market. The external market should generate the foreign exchange required for the purchase of goods not produced at locally. Mostly, and this is the gist of the issue. Exports cannot be of primary goods because the oversupply of primary goods leads into a depression of world prices such as that existing in the latter part of the 1990s. This in turn gave way to a price race to the bottom in terms of who produces more, which in turn results in ecological as well as economic disasters. The beneficiaries are of those firms who consume raw materials and produce value added for export. The physical terms of exchange have

also changes dramatically over the last decade as a result of this.

Domestically, the tax pressures must increase to such an extent that foreign credit used only marginally. Foreign loans are used to finance Government expenditure and investment in face of small tax recollections. Mostly the use of foreign savings only helps the foreign lender and not the borrower. Mostly Government-to-Government loans are used to promote the exports of goods from G7 countries to developing countries but they do not always correspond to improvements in the development capacity in the borrowing country. More recently Policy based Lending has been the supply of free resources for the Government as long as they follow the conditions applied by the loan. IN this way the WB has financed political campaigns, for example, in countries where reelections are possible or where the ruling party wants to stay in power.

WTO and trade. Side be side, the importance of the domestic market must be accompanied with a new export base that includes value added. This must come alongside a change in the functioning of the WTO so that protection to valued added exports is removed and developing economies can enter the leading markets. Equally, the 184 economies that do not belong to the G7 can trade amongst themselves. The G7 countries must be made to follow the same rules they apply to all other countries. The Organic agricultural production is the major primary export that must be preserved vis a vis GM production and simetry must be preserved at all costs in these negotiations.

The race to the bottom in wages in order to compete with China must be put to an end with a specialization in each country that complements the order lines of production existing in the country, thus creating cluster economies for the benefit of domestic capital accumulation. Wages must be brought in line with the fight against poverty. Miserable wages produce misery. Only improvements in general productivity though the production of value added will assist in the continuous improvement of wages.

Finally, the debt, the IMF/WB, WTO and trade issues, cannot be seen apart from economic policy, debt justice, the fight on corruption and a new global democracy. In the end the new world will start when this changes.