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Globalisation

Debt: breaking the vicious circle

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The following is a contribution by the Brussels-based Committee for Cancellation of Third World Debt (COCAD/CADTM) to the struggle for the abolition of the third world debt and for the implementation of alternatives to neo-liberalism at a world scale. It is an updated version of a text first written at the beginning of 2001.

[https://internationalviewpoint.org/IMG/jpg/jubilee_2000.jpg]
Jubilee 2000 human chain

The Universal Declaration of Human Rights (Article 25) states that "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services ... Everyone has the right to education, to work and to social security".

The International Covenant on Economic, Social and Cultural Rights, ratified by the majority of UN member states, stipulates that "States have a right and a duty to draw up appropriate national development policies to constantly improve the welfare of the population as a whole and of every individual, on the basis of their free, active and meaningful participation in development and the fair distribution of the profits thereof."

The UN Committee for Economic, Social and Cultural Rights interprets the obligations of the Covenant as follows: "A member State in which a large number of individuals are deprived of basic foods, primary healthcare, decent clothing and housing or elementary education, is not fulfilling its obligations as laid down by this Covenant."

Despite this, and the fact that total world wealth has increased eightfold since 1960, at the present time one in two human beings lives on less than two dollars a day, one in three has no access to electricity, one in four lives on less than a dollar a day, one in five has no access to clean drinking water, one in six is illiterate and one in seven adults and one in three children suffer from malnutrition.

The United Nations Development Programme (UNDP) and UNICEF estimate that:

US$80 billion a year for ten years would be enough to guarantee to every human being living on this planet access to basic education, basic health care, adequate food, drinking water and sanitation, and for women, gynaecological and obstetric care. US$80 billion represents about four times less than the sum repaid on its external debt by the Third World; it's about a quarter of the US Defence budget; 9% of world military expenditure; 8% of what is spent annually on advertising worldwide; half the cumulated wealth of the four richest people on the planet. Present day misery could be transformed with such wealth.

The laws of the market and profit cannot be expected to satisfy essential needs. The 1.3 billion people deprived of clean drinking water and the 2 billion anaemics do not have enough purchasing power.

Only resolute public policies can ever guarantee the fulfilment of basic human needs for all. This is why public authorities must have at their disposal the political and financial means of honouring their obligations towards their citizens.

The latter must also be able to exercise fully their right to play a central role in the political life of the State. To bring that about, efficient judicial mechanisms and economic policies must be implemented in a dynamic of participatory democracy. The example of a participatory budget, as practised in Porto Alegre (in Brazil) since the early 1990s, should be adopted on a worldwide scale and inspire original policies of radical democracy.

The implementation of the Universal Declaration of Human Rights and the International Covenant on Economic, Social and Cultural Rights has to be backed up by a powerful social and citizens' movement.

Firstly, the haemorrhage of wealth represented by debt repayments has to be stemmed. Next, different sources of funding must be found for socially just and ecologically sustainable development.

Finally, we must break away from the old logic, which leads to the cycle of indebtedness, to embezzlement and large-scale pillage of local wealth, and to dependence on the financial markets and condition-laden loans of the international financial institutions.

Breaking the infernal cycle

The champions of neo-liberal globalisation tell us that the Developing Countries (in which they include Eastern Europe) must repay their external debt if they wish to benefit from constant flows of funding.

In fact, ever since the debt crisis in 1982, the flows have been going from the Periphery to the Centre, and not the other way as the leaders of the international financial institutions would have us believe.

In the last two decades, there has been a massive net transfer of wealth from the Periphery to the Centre. The added mechanism of debt repayment has become a powerful support to those previously in operation (unfair trading, exploitation of natural and human resources, the brain drain, repatriation of profits to the parent company, etc.)

Since 1982, the populations of the Periphery countries have sent their creditors the equivalent of several times the Marshall Plan, [1] (with the local capitalist elite skimming off their commission on the way).

It has become urgent to adopt the opposite view from that of official discourse: the Third World's external public debt must be cancelled. Close scrutiny reveals that the Third World debt is slight compared to the historic social and ecological debt owed it by the rich Northern countries.

In 2001, the Third World debt (former Eastern bloc countries not included) comes to about US$2,100 billion (of which about 75% is public debt), merely a small percentage of the world debt, which comes to more than US$45,000 billion. (The total sum of public and private debt for the US alone comes to US$22,000 billion).

If the Third World's external public debt were to be entirely cancelled without indemnifying the creditors, it would be a paltry loss of barely 5% in their portfolios.

On the other hand, to the populations liberated at last from the burden of debt, those sums, which could be used to improve health and education, create jobs, etc., would mean a lot.

Indeed, the repayment of the Third World's external public debt represents, on average, expenditure of about US$200-250 billion a year, that is about 2 - 3 times the amount required to satisfy basic human needs as defined by the United Nations.

Some claim that debt cancellation leads to permanent exclusion from access to international capital. No serious study of the history of debt crises underlies this claim.

Between the end of the 18th Century - when the United States of America cancelled their debt towards the British Crown - and the end of the 20th Century - the cancellation of part of Poland's debt in 1991 - numerous measures of debt-cancellation have been taken, with no adverse effects on the availability of external private finance.

On the contrary, historical precedent for debt-cancellation has shown its advantages. Take, for instance, the cancellation of 51% of Germany's war debt in 1953, which made a significant contribution to German economic recovery.

Other historical precedents exist: the Russian State debt in 1918, the war debts of the United Kingdom and France, the debts of the South American states after the 1929 Wall Street Crash, etc. All those countries experienced considerable economic development after the cancellation measures.

Furthermore, the threat means nothing to most Third World countries, which have had hardly any access to that capital for years. The UNDP states that, "only 25 Developing Countries have access to private markets for bonds, commercial bank loans and portfolio investments". Note that the UNDP includes the East European states in the 25 countries mentioned and that the total number of Developing Countries, as they define them, is 180.

According to the United Nations, in 1999 the 48 Least Developed Countries (LDC), with their nearly 600 million inhabitants, received only 0.5% of Foreign Direct Investments (FDI) destined for Developing Countries (DC). Indeed, the DC's share of FDI has been in constant decline over the last three years - while the rich countries get 80% of these flows.

For the handful of Third World countries with access to international capital (4 countries - China, Brazil, Mexico and Thailand - received more than 50% of FDI flow in 1998), 80% of Foreign Direct Investment input is accounted for by the acquisition of pre-existing businesses taken over by multinationals of the most industrialised countries. This does not result in job-creation, quite the opposite.

Furthermore, these acquisitions imply a loss of national control over the productive infrastructure. Not to mention the highly volatile and speculative nature of the other capital flows (which is one of the lessons of the financial crises of the 1990s).

Restricting this type of flow would do no harm to the economies of these countries. We propose replacing these unproductive, even damaging, flows by alternative sources of funding (see the second part of this text), so as to significantly reduce dependence on financial markets and the Bretton Woods Institutions [IMF and World Bank-ed.].

Debt-Cancellation

Debt-cancellation is all the more legitimate that it can be justified by several legal arguments, including the notions of "odious debt" and "force majeure".

Odious Debt

State debts contracted against the interests of local populations are judged unlawful. According to Alexander Sack, who theorised this doctrine, "If a despotic power contracts a debt not in accordance with the needs and interests of the State, but to strengthen the despotic regime, to repress the population who are combating it, this debt is odious for the population of the whole State. This debt is not an obligation for the nation: it is a regime's debt, the personal debt of the authorities which contracted it; consequently, when the regime falls, the debt becomes null and void".

Thus, debts contracted against the interests of the population of the indebted territory are "odious" and, in the case of a change of regime, the new authorities are not held to repay them.

The notion dates back to the end of the 19th Century when the United States gained control of Cuba after a war with Spain. The latter demanded that the victor take on the Cuban debt towards the Spanish Crown, in accordance with international law. The United States Negotiating Commission refused to do so on the grounds that the debt was "a burden imposed upon the Cuban people without their consent".

The Commission argued that, "the debt was incurred by the Government of Spain for its own interests and by its own agents. Cuba had no say in the matter." The Commission added that, "the creditors accepted the risk of their investments".

Later, in the 1930s, an international Court of Arbitration in which Judge Taft, President of the United States Supreme Court, took part, declared that loans made to President Tinoco of Costa Rica by a British bank established in Canada were null and void since they had not served the country's interests but the personal interest of a non-democratic government.

On this occasion, Judge Taft declared that, "The case of the Royal Bank rests not simply upon the form of the transaction, but upon the bank's good faith at the time of the loan for the effective use of the Costa Rican government under Tinoco's regime. The Bank must prove that the money was lent to the government for legitimate purposes. It has not done so".

The recognised lawful governments that followed the dictatorships of South America in the 1980s (Argentina, Uruguay, Brazil, etc.) should have drawn upon international law to have their odious debts cancelled. A large portion of these countries' loans, were directly embezzled by the local elites with the collusion of the Northern banks, who used their financial know-how to help them effect their fraudulent operations.

To give just a few more flagrant examples: the same happened in the Philippines after the overthrow of the dictator, Marcos, in 1986; in Rwanda in 1994 after the genocide perpetrated by its dictatorial regime; in the Republic of South Africa as it emerged from Apartheid; in the Democratic Republic of Congo in 1997 when Mobutu was overthrown; in Indonesia in 1998 when Suharto was forced to leave government, etc.

Instead of making use of national and international law to refuse to acknowledge debt, those newly in power prefer to negotiate with their creditors to reschedule repayments or make cosmetic reductions. Once they are sucked into the interminable cycle of external debt, it is their populations who bear the cost.

This system of creating dependency has to be brought to an end. Full support must be given to the social and citizens' movements in Developing Countries, which call on their governments to repudiate the external public debt and stop repayments.

"Force majeure"

Another means provided by the law of supporting debt cancellation and stopping repayments is to use the argument of "force majeure". This principle of international law acknowledges that a change in the conditions of a contract may render it invalid.

This means that contracts requiring the fulfilment of a succession of future commitments are subject to the condition that the circumstances should remain unchanged. (In common law, there are several doctrines based on a similar principle, including "force majeure" (circumstances beyond one's control), "frustration", "impossibility" and "non-feasibility".)

"Force majeure" quite clearly applies to the debt crisis of the 1980s. Indeed, the fundamental causes of the debt crisis from 1982 were two exogenous factors: the dramatic rise in interest rates imposed worldwide by the United States government from the end of 1979, and the drop in export prices for the Peripheral countries from 1980 on.

Both these factors were instigated by the creditor countries. They are cases of "force majeure" which fundamentally modify the situation and prevent the debtors from fulfilling their obligations.

Extra resources to finance development

For debt cancellation to serve the purpose of human development, obviously the money previously ear-marked for debt repayment needs to be paid into a development fund, under the democratic control of the local population. However once this first step of debt cancellation has been taken, the present economy based on international indebtedness must be replaced by a model which is both socially just and ecologically sustainable, and independent of the fluctuations of the money markets and of the loan conditionalities imposed by the World Bank and the IMF.

This development fund, already supplied with money saved through debt cancellation, must also be financed by the following measures:

Restitution of stolen property to the citizens of the Third World: the considerable wealth illicitly accumulated by the ruling authorities and local capitalists has been deposited securely in the most industrialised countries with the active collusion of private financial institutions and the tacit agreement of the Northern governments (the practice continues to this day).

Take, for example, Argentina under the military dictatorship (1976-1983): this country's debt was increased six-fold. A large part of the money borrowed was deposited by members of the regime in banks in the US, Britain and other industrialised countries. Financial and industrial firms in the industrialised countries as well as members of successive Argentine governments thus became rich through illegal means.

The Argentine judiciary established the facts in the course of a trial, which took place in July 2000. The collusion of the IMF and the New York Federal Reserve was proven. On the basis of the judgement passed, which should set a legal precedent, the populations thus robbed should be able to receive compensation.

Imagine, for example, what it would mean to the population of Argentina to recover the money deposited made by the military dictatorship (1976-1983) in the most industrialised countries, imagine what the return of a large part of the late President Mobutu's fortune (equivalent to ten times the Democratic Republic of Congo's annual national budget) would mean to the Congolese people, or to the population of Nigeria if they could recover the fortune of the dictator Abacha, safely invested in Switzerland with the collusion of Citibank and Crédit Suisse.

To operate such retrocession implies the completion of legal proceedings in the Third World countries and the most industrialised countries. Such investigations would necessitate full international co-operation and the ratification of the Convention of Rome of March 1991, which deems the misappropriation of public property to be a human rights violation.

Among other things, they would serve to ensure that people guilty of corruption do not get off scot-free. This is the only hope, if one day democracy and transparency are to triumph over corruption. Further action would be to support the resolutions made at the international meeting held in Dakar in December 2000 ('From Resistance to Alternatives') demanding compensation for the pillage, which the Third World has been subject to over the last five centuries. This includes the restitution of economic and cultural property stolen from the Asian, African and South American continents.

Tax financial transactions: initially proposed by the 1972 Nobel prize-winner for Economics, James Tobin, this idea was taken up by other economists, then by the international network, ATTAC (Association for the Taxation of Financial Transactions for Aid to Citizens). Such a tax would liberate considerable sums of money for development.

UNCTAD (United Nations Conference for Trade and Development) calculates that US$1000 billion a day taxed at 1% would produce US$720 billion a year. As a working hypothesis, they propose splitting it in two: US$$360 billion for a social and ecological fund in the countries where the transactions took place, and US$$360 billion for a redistribution fund for the countries of the South (for health, education, etc.). The two funds would be managed by mixed boards of directors representing civil society and governments.

As for ATTAC's international platform, it suggests a tax of 0.1% bringing in some US$100 billion annually, which could be used to combat inequality, and to provide public health and education services, food security and sustainable development. Obviously, it is impossible to calculate exactly how much such a tax would raise, since it depends on the rate of the tax and the volume of financial flows.

However, in view of the globalisation of markets which has been operating since Tobin's initial proposal (and especially the development of derivative products bridging all the gaps between markets), it would seem necessary to tax all financial transactions (shares, bonds, hard currency and derivatives), so that operators cannot dodge this solidarity tax by turning to other markets. Centralised computerisation of clearing operations, through clearing houses such as the SWIFT for the exchange market, makes the application of such a tax perfectly feasible.

Raise Official Development Aid to at least 0.7% of the GDP: the present level of Official Development Aid (ODA) does not balance out the negative effect of debt repayment.

First, it should be pointed out that a significant part of ODA is constituted of loans to be repaid. Next, in 1999, the grand total of ODA did not exceed US$50 billion, i.e. about five times less than the amount repaid by the Third World in external debt servicing.

In 1999 ODA represented a mere 0.24% of the Gross Domestic Product of the most industrialised countries, despite their commitment, frequently reiterated within the framework of the UN, to reach the objective of 0.7%. In fact, ODA fell by 33% between 1992 and 1998, in scandalous contradiction of promises made in Rio (at the Earth summit in 1992) by the Heads of State of the industrialised countries.

Taking the present average of 0.24%, ODA must be multiplied threefold to fulfil the commitments made. Considering that ODA represents a little under US$50 billion, if it is multiplied by three, it should reach US$150 billion a year which should be entirely paid out as grants (as compensation, and no longer, as is too often the case, in the form of loans).

Levy an exceptional tax on the estate of the very wealthy: in its 1995 report, UNCTAD suggests levying a single, exceptional tax on the estate of the very wealthy. Such a tax levied throughout the world would mobilise considerable funds. This exceptional tax (unlike a recurrent tax on property such as exists in many countries round the world) could be levied on a national scale. A one-off solidarity tax of, say, 10% on the property of the richest tenth in each country could generate very considerable internal resources.

More generally, what is needed is to move towards a truly redistributive system of taxation, which would enable the authorities to fulfil their obligations towards their citizens in terms of economic, social and cultural rights.

A new development strategy

Instead of the present development strategy, which consists of the creditors forcing Southern countries to adopt neo-liberal type adjustment programmes, an endogenous and integrated development strategy should be embraced. The change would be implemented in three stages:

End Structural Adjustment Policies: Structural Adjustment Programmes (SAP) result in the weakening of States by making them more dependent on external fluctuations (world market movements, speculative attacks, etc.) and by subjecting them to conditionalities imposed by the IMF/World Bank duo backed up by the governments of the creditor countries grouped within the Paris Club.

SAPs deliver up the economies of the Third World to the appetites of the great multinational firms. Far from solving the problem of indebtedness (the Third World debt has quadrupled since the first SAPs were set up, even though it has been repaid six times over the same period), they entail massive redundancies and drastic cuts in social budgets. They prevent any real human development.

The UN Human Rights Commission has repeatedly adopted resolutions concerning the debt problem and structural adjustment. In a resolution adopted in 1999, the Commission states that "For the population of an indebted country, the exercise of their basic rights to food, housing, clothing, work, education, medical care and a healthy environment may not be subordinated to the application of Structural Adjustment Programmes and economic reforms generated by the debt".

The UN Secretary General, for his part, writes that "The UN Special Rapporteur on Structural Adjustment clearly shows that Structural Adjustment Programmes, recommended by the international financial institutions, have a patently negative influence (directly and indirectly) on the fulfilment of economic, social and cultural rights and are incompatible with the fulfilment of those rights".

Furthermore, according to the UN, certain conditions fixed by the creditors and the funding agencies constitute a violation of the right to self-determination of the populations concerned: "Every country has a sovereign right to dispose freely of its natural resources for its economic development and the welfare of its people; any measures or external economic or political pressures which are brought to bear against the exercise of this right is a patent violation of the principles of self-determination of peoples and of non-intervention as stated in the UN Charter ... Those measures include economic pressure aimed at influencing another country's policies or at controlling the main sectors of its national economy. Economic and technical assistance, loans and the increase of foreign investments must be provided without the imposition of conditions which go against the interests of the receiving country".

The human consequences of Structural Adjustment Programmes are incontestably negative. They must therefore be stopped.

Adopt partly self-based development models: such models entail constructing sufficiently solid internal economic foundations to allow the country to open up to international trading.

This type of development involves creating politically and economically integrated zones, bringing to bear endogenous development models, strengthening internal markets, creating local savings funds for local financing, developing education and health, setting up progressive taxation and other mechanisms to ensure the redistribution of wealth, diversifying exports, introducing agrarian reform to guarantee universal access to land for small farmers and urban reform to guarantee universal access to housing, etc.

Today's global architecture, structured on the idea of a "Periphery" which is forced to provide raw materials and cheap labour to a "Centre" that has all the technology and capital, must be replaced by regional economic groupings. Only such self-based development would allow South-South relations to emerge, which is the condition sine qua non for the economic development of the Third World (and therefore, by extension, the world). These integrated zones could establish regional authorities with powers of economic and social regulation.

Act upon terms of trade: the existence of unfair exchange between the most industrialised countries and those of the Third World is one of the fundamental causes of the latter's indebtedness. Unequal exchange creates a structural deficit in the balance of payments: imports grow faster than exports, leading to indebtedness.

The historical tendency to downgrade the terms of exchange must be brought to an end. To do this, mechanisms guaranteeing a better price for the basket of products exported on the world market by Developing Countries must be introduced. (These might include stabilising the prices of raw materials, building up regulatory stocks - which means doing away with zero stocks, etc.).

As long as no such concerted mechanisms are in place, the Developing Countries' efforts to establish cartels of producer countries must be actively encouraged. The creation of such cartels could simultaneously result in a reduction of the quantities exported and an increase in export revenues that the beneficiary countries can reinvest in development. The countries of the Periphery must have access to protection measures for their local production.

Concerning agriculture, Via Campesina [worldwide association of small and peasant farmers-ed.] is right in demanding that the right of each country (or group of countries) to nutritional autonomy and self-sufficiency in staples be recognised. This implies protection measures for imports, in total opposition to the minimal agricultural export quota of 5% imposed by the WTO on member countries.

The rules of global trading must be subordinate to strict environmental, social and cultural criteria. Health, education, water and culture can have no place in the field of world commerce. Public services in the general interest are a guarantee of fundamental rights and as such must be excluded from the General Agreement on Trade in Services (GATS).

Furthermore, the Trade-Related Intellectual Property Rights (TRIPs) agreement should be abolished, aspects of which allow the North to appropriate the rich natural resources of the South and prevent the Southern countries from freely producing goods (such as medicines) to satisfy the needs of their populations.

New rules of good financial practice

The repeated financial crises of the 1990s proved by their absurdity that there can be no sustainable development without strict controls of capital movements and tax evasion. Several strategies are therefore required to subordinate the money markets to the fulfilment of basic human needs.

– Re-regulate the financial markets. The deregulation of the money markets has led to the inordinate development of financial speculation. It is time to re-regulate the money markets, beginning by establishing a means of tracing all financial operations (to determine who does what and for what purpose), then regulating accordingly.
– Control capital movements to avoid the devastating effects of the remorseless ebb and flow of international capital. Article VI of the IMF Statutes explicitly recognises the merits of a government adopting measures to control capital movements. The article permits a member country of the IMF "to exercise strict supervision of international movements of capital in order to regulate them".

An appropriate measure would be to establish a temporary obligatorydeposit, whereby every capital entry would be conditional upon an accompanying deposit for one year of 30% of the sum invested. After a year, the deposit would be returned to the investor (encouraged to invest only in the long term). The deposit would not earn any interest.

Numerous other control measures exist, for example, the obligation to hold shares and bonds for a minimum of one year before selling them on, the limitation of currency exchange to commercial transactions (excluding financial operations), heavy taxation in the case of excessive fluctuation (as proposed by the economist Bernd Spahn), etc.

– Eliminate tax havens which contribute to inflating the financial bubble and weakening the legitimate economies (between US$500 and 1500 billion are laundered each year). To achieve this, States must use the clearing-houses to identify transactions originating from tax havens and tax them heavily, to counteract any advantage to be got from such dishonest fiscal policies. At the same time, bankers' rule of secrecy should be removed to combat tax evasion, embezzlement of public funds and corruption more efficiently.
– Adopt rules to ensure the protection of countries, which have recourse to external loans. External indebtedness may be justified if decided democratically by the countries concerned. However the use the borrowed money will be put to must be organised according to principles radically different from those that have hitherto prevailed.

Two new principles must be adhered to. First, a "reverse" conditionality: the obligation to repay and pay interest on these loans, made at low rates of interest and below market conditions, will only be valid if the debt is proven to have enabled sufficient creation of wealth in the countries concerned.

Second, the lender countries should organise strong and efficient protection for the Developing Countries on an international scale, to enable the latter to defend themselves against all forms of abuse and despoilment by banks, private international investors or the international financial institutions.

Further indispensable measures

Cancelling Third World external public debt, abandoning Structural Adjustment Policies and implementing the other measures proposed above will not alone suffice to guarantee real human development for the populations of the Periphery. Further measures are indispensable, the first of which should be equality between men and women and the right to self-determination for indigenous peoples.

This text does not seek to be exhaustive and further measures are the subject of documents produced by various networks and international organizations such as ATTAC, COCAD, Via Campesina, Focus on the Global South, World Forum for Alternatives, World Women's March and Jubilee South or adopted at big international meetings like those at Saint Denis (June 1999), Bangkok (February 2000), Geneva (June 2000), Dakar (December 2000) and Porto Alegre (the social movements' declaration in the World Social Forum in January 2001).

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[1] The Marshall Plan (1948-1951) was the brainchild of the US President Harry Truman's administration under the name of the European Recovery Program. It was later to be known by the name of the Secretary of State at that time, Georges Marshall (who was Chief of General Staff from1939 till 1945), charged with implementing it. Between April 1948 and December 1951, the United States granted aid worth US$12.5 billion, in the form of loans to sixteen European countries. The Marshall Plan's aim was to facilitate the reconstruction of a Europe devastated by World War II.

Considering that the equivalent of US$1 in 1948 would be US$6.28 in 2001, the cost of the Marshall Plan in 2001 would be US$78.5 billion. If all debt repayments made by the Third World in 1999 are taken into account, i.e. US$300 billion, they would have paid their industrialised country creditors the equivalent of about 4 Marshall Plans that year alone. By the same token, since 1980, 43 Marshall Plans (more than US$3,450 billion) have been undertaken for the creditors of the Centre by the peoples of the Third World.

