The Political Economy of International Debt and Third World Development

Fredoline Anunobi
Prairie View A&M University, fredoline_anunobi@pvamu.edu

Leo U. Ukpong
Morgan State University, lukpong@moac.morgan.edu

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This article examines the causes and implications of the international debt crisis. It begins by first defining the debt crisis and offers some basic explanations for the crisis. The analysis examines the costs of the debt crisis and develops some basic explanations for the crisis. It explores the same conditions in both the North and South countries. Also, the article addresses the role of international financial institutions, and pays some close attention to the problems of international financial establishments in the 1980s. Finally, it reviews some general solutions to the debt crisis and provides some tentative suggestions for future considerations.

INTRODUCTION

The emergence of a “debt crisis” has been almost internationally acknowledged since the 1980s. Some would argue that the crisis had existed unrecognized for many years, despite alarms sounded regularly over a period of time. The definition of the crisis in the advanced industrialized countries was generally the same: the onset of widespread problems in servicing the amount of Third World debt threatened the stability of the global financial establishment. The nightmare in the industrialized capitalist North was an episode of rushing financial collapse in the mold of those described so precisely by Kindleberger (1978) – a default by a major debtor nation (or domino defaults by debtors small and large), followed by the failure of a major financial institution or institutions, a collapse of confidence in the financial establishment, and eventually a sharp contraction of economic activity and global trade (Kindleberger, 1978; Cline, 1983; Stiles & Akaha, 1991). The reality was that of a panic; the fear that the financial establishment, which had appeared so great in dealing with successive shocks in the 1970s, might prove inefficient in the harsher circumstances of the 1980s.

However, for the less developed countries of the South, the debt crisis was a crisis of development, one element of the deepest economic downturn since the Great Depression, which had begun in some Third World nations after the first oil shock (Stiles & Akaha, 1991). For the less developed countries of the South, the link between debt and economic
difficulties varied among the regions of the LDCs. For example, in Latin America, which held the largest share of private debt (and posed the greatest threat to system stability), and in Eastern Europe the sudden collapse in global lending led to sharp curbs on imports and severe economic retrenchment, complicated in the case of Eastern Europe by worsening East-West interaction. Also, Africa's disastrous economic malaise seemed to lie in a sharp worsening of its terms of trade, a decrease in official development assistance, and damaging national economic measures. Furthermore, Asia, with the exception of the Philippines, stood outside the crisis growth rates held up remarkably well, and the region had never entered the private financial markets with the gusto shown by the Latin American countries. Meanwhile, some Third World countries made clear their own interest in avoiding further weakening of the global financial system, the costs to national development objectives were great for the less developed countries of the South.

This article examines the causes and implications of the international debt crisis. It begins by first defining the debt crisis and offers some basic explanations for the crisis. The analysis examines the costs of the debt crisis and develops some basic explanations for the crisis. It explores the same conditions in both the North and South countries. Also, the article addresses the role of international financial institutions, and pays some close attention to the possibility of the problems of international financial establishments in the 1980s. Finally, it reviews some general solutions to the debt crisis and provides some tentative suggestions for future considerations.

DEFINING THE DEBT CRISIS

Once the Third World country's external debt had increased at rates from 20-30 percent over a period of ten years, and the levels of external debt had begun to approach 40-50 percent or more of the national income, an external debt crisis emerges. For our purposes, therefore, the "debt crisis" will refer to the external debt, both private and public of developing nations, which has been growing largely since the early 1970s. Our focus should not obscure, however, the debt crisis that trouble much of the international economy such as the budget deficits of the United States, its balance of trade deficits, and the insolvency of many of its savings and loans institutions. These crises are generally interconnected, specifically as they relate to the issues of interest rates, export values, currency values, and confidence in the global banking system. The "debt crisis," therefore, is an international phenomenon, and any effort to understand it accurately needs an international perspective. However, the greatest suffering henceforth in the crisis is found within the less developed countries, and therein lies the justification of our focus. Again, within the LDCs, the attention can be directed toward a variety of problems depending on how one chooses to think about the debt. As Ferraro and Rosser put it (1994, p. 333):

One can focus on the integrity of the international financial system, in which case one's emphasis is on the countries with the largest debts, such as Mexico or Brazil. Alternatively, a primary concern can be on the desperate human costs of the debt, which
would direct attention to Sub-Saharan Africa, for example. Yet another perspective, the strategic dimension of the problem, would concentrate on debtors such as Turkey or South Korea.

Attention will be paid primarily to what have been termed the most heavily indebted countries within the Third World nations. This focus is not neutral, since it generally refers to those countries with the largest debts and whose threat of default shows a serious concern to lending institutions (World Bank, 1989). The bias of the focus, however, should not divert attention from the smaller nations, specifically those in Africa, whose debts are crushingly large to their people, even though the banks and global lending institutions consider them less significant (IMF, 1992).

The increasing rate of debt for the most heavily indebted countries is evident. In 1970, the fifteen heavily indebted countries (utilizing the World Bank grouping of 1989) had an external public debt of $17,923 billion - which amounted to 9.8 percent of their gross national product. By 1987, these same countries owed $402,172 billion, or 47.6 percent of their gross national product (Frieden & Lake, 1991; Anderson, 1990; Klare & Thomas, 1994; Mossberg, 1989; Kilbourn, 1989; IMF, 1989). Also, interest payments owned by these nations increased from $2,789 billion in 1970 to $36,252 billion in 1987.

While debt service, defined as the sum of actual repayments of principal and actual payments of interest made in foreign currencies, goods or services on external public and publicly owned debt, amounted to 1.5 percent of their gross national product and 12.5 percent of their total exports of goods and services in 1970. Meanwhile, in 1987, those figures had increased to 4.5 percent and 24.9 percent respectively (Frieden & Lake, 1991, p. 318). Table 1 on the following page provides the statistical data using the World Bank’s 1992 classification of heavily indebted nations. For the Third World as a whole, in 1991, the total external debt was $1.362 trillion, which was 126.5 percent of its total exports of goods and services in that year, and the debt servicing ratio to the gross domestic product of the Third World amounted to 32.4 percent (Cline, 1983, p. 31).

Meanwhile, the external debt of the less developed countries could not continue to increase at rates largely above the rate of growth of their gross national product indefinitely. Whenever the debt accelerated more sharply than income, the ratio of debt to income increased. As long as the debt’s rate of growth was greater than its interest rate, the Third World countries incurred no current costs by issuing more new debt abroad, since the foreign exchange received from the sale of the new debt was more than enough to pay for the interest on the outstanding debt. On the other side of the game, if the creditors became convinced that the ratio of debt to income could not continue to accelerate at this rate, their credit rationing would become very difficult, the rate at which the debt increased would slow down, and the less developed countries would find themselves increasingly less able to promote new loans with which to pay the interest on the outstanding debt. This occurrence would force the borrowers to make some necessary adjustment. In fact, the degree of adjustment would vary according to the borrower’s willingness to pay interest on a scheduled basis, and according to the lender’s willingness to purchase new loans from the
borrowers at a minimum rate. However, it is important to note that both the timing of the external debt crisis and its severity were influenced by (i) the increase in nominal rates on securities denominated in the United States dollar and (ii) by the global recession. In this situation, higher nominal interest rates meant larger interest payments by the borrowers on the floating interest rates element of their external debt. While recession on the other hand, meant their export earnings decreased. The external debt crisis is specifically associated with the surge in interest rates on this debt, which decreased the net cash inflow associated with a given volume of debt sales. The main consequence came from decreased net cash inflows produced by the declined capacity to sell new loans.

**TABLE 1**

| Selected Debt Statistics of the Fifteen Most Severely Indebted Developing Nations |
|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|                                 | External Debt (US$ in Millions) | External Debt (as % of GNP)     | Debt Service (as % of Exports)  |
| Algeria                         | 26,806                          | 47.1                            | 27.1                            | 59.4                            |
| Argentina                       | 61,144                          | 48.4                            | 37.3                            | 34.1                            |
| Bolivia                         | 4,276                           | 93.3                            | 35.0                            | 34.1                            |
| Brazil                          | 116,173                         | 31.2                            | 63.1                            | 20.8                            |
| Bulgaria                        | 10,927                          | 1.1                             | 0.10                            | 56.9                            |
| Congo                           | 5,118                           | 98.0                            | 10.8                            | 20.7                            |
| Cote d'Ivoire                   | 17,956                          | 58.8                            | 28.3                            | 38.6                            |
| Ecuador                         | 12,105                          | 53.8                            | 33.9                            | 33.2                            |
| Mexico                          | 96,810                          | 30.5                            | 49.5                            | 27.8                            |
| Morocco                         | 23,524                          | 53.3                            | 32.7                            | 23.4                            |
| Nicaragua                       | 10,497                          | 12.1                            | 22.3                            | 4.10                            |
| Peru                            | 21,105                          | 51.0                            | 46.5                            | 11.0                            |
| Poland                          | 49,386                          | 16.3                            | 17.9                            | 4.90                            |
| Syria                           | 16,446                          | 27.1                            | 11.4                            | 26.9                            |
| Venezuela                       | 33,305                          | 42.1                            | 27.2                            | 20.7                            |


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The external debt crisis that emerged in many developing countries in 1982 can be traced to higher oil prices in 1973-74 and 1979-80, high interest rates in 1980-82, declining export prices and volume associated with global recession in 1981-82, problems of domestic economic management, and an adverse psychological shift in the credit markets (Cline, 1983, p. 31).

This condition really started earlier than 1973 because debt has been solidly entrenched in the finances of the Third World nations for many years. The United States was a heavily indebted nation in the 20th century, and poorer nations have always needed outside infusions of investment capital in order to develop their resources. The logic of indebtedness is very simple. For instance, a nation incurs a debt in hopes of making an investment that will produce enough money both to pay off the debt and to generate economic growth that is self-sustaining. An essential feature of the Third World debt before 1973 was that it was generally financed through public institutions, both bilateral and multilateral. These institutions such as the International Monetary Fund and the World Bank...
mainly guided the investments toward programs that held out genuine promise of economic stability, viability, growth, and prosperity.

Hence, after the oil crisis of 1973-1974, many international financial establishments found themselves awash with "petrodollar" from some petroleum exporting countries, and these private international financial establishments were anxious to put this windfall capital to productive use. These international financial establishments believed that sovereign debt was a good risk since there was a prevalent hope that nations would not default (United Nations Chronicle, 1990). Also, many less developed countries, suffering from oil price increase, were further anxious to receive these loans. At this point, however, the LDCs argued that loans were the right way to ease the trauma of the oil price increases specifically given the very high inflation rates at the period. Meanwhile, other LDCs, in the oil producing nations (Mexico, Iran, Iraq, Nigeria, Venezuela, Colombia, and the like), saw the loan as a means to capitalize on their much-improved financial status, and they believed that oil prices would remain high in real terms for a given period of time. In fact, it is very simple to prove that these actions did not conform to the true logic of indebtedness. For one thing, these loans were being used to pay for current consumption, not for productive investments. The loan was not being used to mobilize underutilized resources, but rather to maintain a current, albeit desperate, standard of living. Furthermore, these loans were being made in an unstable economic and political environment. Since the untraveling of the Bretton Woods Agreement in 1971, international economic relations had been steadily worsening. Since that time the LDCs began to experience a long term, secular decrease in demand for their goods as the industrialized capitalist countries tightened their economic belts in order to pay for oil price increase.

The proof of the wrongheadedness of the lending in the 1970s became, seriously apparent in 1981. During that time, interest rate increased, and international demand for exports from the LDCs declined seriously. Moreover, the world recession of 1981-1982 made it impossible for the LDCs to generate enough income to pay back their loans on schedule. According to the United Nations Conference on Trade and Development (UNCTAD), products' prices (for goods such as foodstuffs, fuels, minerals, etc.) dropped 28 percent in 1981-1982, and between 1980 and 1982, and between 1980 and 1982 interest payments on loans increased by 50 percent in nominal terms and 75 percent in real terms (UN Children's Emergency Fund, 1992; IMF, 1992; Adepoju, 1993; Onimode, 1989; World Bank, 1989). At the same time, in 1982, Mexico came to the brink of what everyone had thought impossible just two years earlier-default (Winikoff, 1990). This critical condition marked the beginning of what is conventionally termed "the debt crisis." At the same time private commercial banks quickly disengaged from further lending because the risks are too great. Also, in order to prevent a panic which might have had the impact on untraveling the entire global financial establishment, a number of governmental and nongovernmental institutions led by the U.S., stepped in to assure the continued repayment of the Mexican loans.
POVERTY AS AN EXPLANATORY MODEL FOR THE DEBT CRISIS

As we perceive it, the macroeconomic debts of the Third World will not be completely repaid. This is very true because the people who live in these regions cannot afford to repay them. For one thing, the harsh reality of poverty in the poorer of the poor nations was an initial stimulus for the borrowings. Economic situation suggested that borrowing money was a reasonable course of action in the 1970s, specifically for poorer countries, which saw few, if any, alternative ways to address the economic problem of their people. Those who live in the wealthy nations of the industrialized capitalist countries can really witness profound poverty. For many of them do not have equal access to education, good nutrition, housing, health care and the like. The truth that these deprivations exist alongside enormous wealth is shocking, but they pale when compared to the scale of international poverty. The homelessness, illness, hunger, and suffering of the poor in the advanced capitalist industrialized nations must be multiplied a thousand times, in some situations a million times to begin to reflect the scope of poverty in the world’s poorest countries. For example, in the 1980s, the average per capita income for citizens living in the poor nations in the South was 8 percent of the income in the industrialized capitalist countries of the North. In Africa, more than one-fifth of the population lives below the poverty line, with those in Sub-Saharan Africa bearing the heaviest burden (Ferraro & Rosser, 1994, p. 336). Also, a child in the Third World suffers a risk of death five to twelve times greater than that of a child in North America or Western Europe. A pregnant woman in Africa, Asia, or Latin America is 50 or 100 times more likely to die in childbirth than women in the rich, advanced countries (United Nations Children's Emergency Fund, 1992).

Apart from the availability of statistical data and indicators, international poverty is as hard to measure as it is to conceptualize. Meanwhile, it is easy to characterize abstractly the living conditions of the world’s impoverished population, but, there is no generally accepted method of identifying the poor, and hence, of measuring the exact degree of international poverty. For this reason, economists, politicians, social scientists, agencies for international aid, and historians each advocates their own specific definition of poverty depending upon the interest, whether noble or self serving, which they are protecting. However, whatever the bias of these scholars or the method used to estimate the number of international poverty, the statistics are overwhelmingly high, sometimes beyond expectation as these estimates provided by the United Nations Chronicle indicated.

The major debate concerning the definition of poverty centers around the two common types of measurements: income model and basic need model. According to income model, the most common measure of poverty, believes that poverty is a direct function of income and individual purchasing power within countries. This model argues that individuals with a higher income should have greater access to goods and services that will satisfy their basic needs (all things being equal). According to income model, the countries with a higher gross national product (GNP) and GNP per capita generally will have a greatly higher standard of living for all their citizens. Thus, the income model approach
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utilizes a cross-national comparison of gross national product, gross national product per capita, and gross domestic product (GDP) statistics to define poverty. As a result of this, in 1990, the World Bank’s definition of poverty was all of the world’s population living on less than $370 per annum; a figure obtained from the average of the poverty lines of the poorest countries in the world. By this method, more than 20 percent of the world’s population live in poverty.

Meanwhile, the degree with which gross national product and related economic indicators can be calculated, and the capability to set an actual “poverty line” based on these “hard” figures, are the general characteristics of the income model approach. This model has many hidden and general weaknesses. First, in spite the fairly accurate nature of the income definition of poverty, it is, in reality, based on averages. For example, the gross national product per capita indicator measures the average income of each individual in a country by dividing the total gross national product by the total population. This is one of the poor economic indicators in the real world situation because it does not consider the unequal distribution of wealth and income within the country.

In contrast, the basic needs model defines and conceptualizes poverty differently. According to the basic needs model, it is not a lack of money that causes people to live impoverished lives, it is a lack of food, shelter, education, safe drinking water, health care, and sanitation. For these reasons, the model establishes a minimum standard for each of these life-sustaining factors and classifies as poor those who in the final analysis have access to less than a minimum requirement. The classification of the impoverished, according to the basic needs model approach, is one who is illiterate, short-lived, malnourished, sickly, and lacking adequate sanitation and shelter. The poorest countries, as classified by a basic needs model are those who do not provide for the basic needs of their citizens. Essentially, they are not always the countries with the lowest gross national product. For instance, Sri Lanka is grouped 120th in the world per capita gross national product, but is listed as 75th in the United Nations’ 1990 Human Development Report (Todaro, 1989; Pool & Stamos, 1987; Dietz, 1986).

Despite the fact that the basic needs model demonstrates the living conditions of the world’s poorest people far better than a simple income model approach, it also has its own weaknesses as an approach for measuring the level of poverty in the World. First, the data for the basic needs model is really difficult to collect. A successful study of the basic needs model is time-consuming and expensive. Thus, basic needs model approach sometimes relies upon rough estimates and averages and even some income related information. Moreover, the classifications of basic needs and their importance relative to one another are purely subjective.

Establishing a corrective approach of calculating international poverty is much more than a matter of precision. According to Ferraro and Rosser (1994), the way one defines poverty has a great influence on the types of measure that are chosen to control it. For example, those scholars who use income model perceive economic growth as an ultimate solution to world poverty. This model of analysis depends largely on the theory of
"trickledown economics," that is, any increase in the productivity and relative wealth of a country will in the long-run trickle down to benefit every sector of the economy and, hence, each family unit and individual. Therefore, the World Bank, for example, adopts economic recovery and structural programs to help poor countries increase the rate of growth in their gross national products, and primarily improve the standards of living in their economy. However, those scholars who favor and encourage the basic needs model do not believe that national economic growth is enough to eliminate world poverty, and instead, emphasize questions of how that growth is distributed within a nation. They claim that few of the benefits of increased productivity ever reach the most vulnerable group in low-income nations, and, hence, encourage policies that directly target the poor. Such programs include vaccination and health outreach services, campaigns against illiteracy, nutritional supplements, infant and maternal mortality and the like.

Despite the method of analysis, it is generally evident that many people in the world are living lives of wretched deprivation. This is particularly true for children and women in the Third World. Women and children are the most vulnerable groups of any given country, but they are the main victims of poverty. Women as a group, in poor countries, regardless of age, receive less health care, less food, and less education than men. In the Third World nations today, the female literacy is three quarters that of the male. Also, women work, on average, twice as many hours, including according to Ferraro and Rosser (1994), the unpaid labor of domestic farming, gathering, and caring for the young, the old, and the sick. Again, because of hard labor conditions, inefficient professional health care, poorer nutrition, and unsanitary living standards, women in the less developed world account for 99 percent of maternal deaths around the world (Todaro, 1989). The health of children is even worse. Every seven seconds, a child dies and another disabled by a disease for which there is already an effective, if not efficient preventive measure. Therefore, these are the main conditions that force countries to borrow in the first place. The reality of the debt crisis is that this borrowing only made the suffering even worse. For the developing world to address these economic and social problems, they have to encourage more private foreign investment, borrowing, and/or seeking more public foreign assistance. Unfortunately, neither private foreign investment nor a large proportion of foreign aid comes in the form of gifts (that is outright grants). The receipt of loan assistance implies the necessity of future repayments of principal amount and interest.

FROM DEVELOPMENT TO LDCs DEBT CRISIS

The accumulation of external debt is general phenomena of the less developed countries at the stage of economic development where the supply of domestic savings are very low, current account payments deficits are generally high, and imports of capital are essentially needed to augment domestic or local resources (Anunobi, 1992; Harris, 1986; Klare & Thomas, 1994; Todaro, 1989; Adepoju, 1993; Thasan, 1981). Prior to the 1970s, the external debt of the LDCs was extremely low, and the majority of creditors being foreign
governments and international financial establishments such as the International Monetary Fund, the International Bank for Reconstruction and Development (popularly known as the World Bank), and regional development banks. The majority of these loans were generally on concessional (that is, low interest) terms and were extended for purposes of adopting development measures and increasing imports of capital goods. Meanwhile, during the late 1970s and early 1980s, commercial banks started playing a greater role in global lending by recycling supply of OPEC “petrodollars” and providing general-purpose loans to the Third world countries to ensure balance of payments support and expansion of export sectors. As international borrowing can be greatly advantageous – providing the resources necessary to accelerate economic growth and development – it has its own consequences. At this time, these consequences have generally outweighed the advantages for many less developed countries. One of the major consequences associated with the accumulation of a high external debt is “debt servicing.” Debt servicing is the payment of amortization (that is the liquidation of the principal) and accumulated interest. Specifically, it is a contractually fixed charge on local real income and savings. Therefore, as the size of interest rates grow, debt-service charges increase. In this case, however, debt-service payments must be made with foreign exchange. To put it differently, debt-service obligations can be accomplished only through export receipts, reduced imports, and further external borrowing. All things being equal, most of a nation's debt-service obligations are solved by its export receipts.

Again, before entering into the statistical analyses and tracing the evolutions of the Third World debt crisis, it is important to know the meaning of the term “basic transfer.” The basic transfer of a country defined by Todaro (1989) is the net foreign exchange inflow (or outflow) related to its global borrowing. It is measured as the difference between the net capital inflow and interest payments on the existing accumulated debt. Also, the net capital inflow then is simply the difference between the gross inflow and the amortization on past debt (Horsefield, 1969; Anunobi, 1992; Kaldor, 1982; Thasa, 1981). The reason why the basic transfer is such an essential concept according to Todaro, is that it signifies the amount of foreign exchange that a particular Third World nation is gaining or losing each year from global capital flows. Available evidence shows that the basic transfer of the LDCs turned very negative during the 1980s, causing a loss of foreign exchange and a net outflow of capital. The basic transfer equation explains the situation very well. At this point, the basic transfer equation can be expressed in this way. Let the net capital inflow, \( X_k \), be represented as the rate of increase of total debt and let \( (A) \) signify the total accumulated foreign debt. Hence if \( (a) \) is the percentage rate of increase in that total debt, then

\[
X_k = a \times A
\]

Therefore, because interest must be paid each year on the accumulated debt, let us let \( i \) represent the average rate of interest so that \( i \times A \) measures total annual interest payments. Then, the “basic transfer” (BT) is therefore the net capital inflow minus interest payments.
or

$$BT = a \times A - i \times A = (a - i)A$$

BT will be positive only if a is greater than i and the nation will be gaining foreign exchange. Meanwhile, if i is greater than a, the basic transfer automatically turns negative and the country loses foreign exchange. The analysis of the origins of and prospects for the LDCs debt crisis requires an examination of those variables that cause a and i to either increase or decrease.

During the early period of debt accumulation when a Third World nation has a relatively small total debt, (A), the rate of increase, (a), is likely to be high. Again, since the majority of the first stage debt accumulation comes from official rather than private sources in the form of bilateral foreign assistance and World Bank providing, most of the debt is incurred on concessional terms — that is, at below — market interest rates with lengthy repayment periods. Hence, (i) is generally low and, in any circumstance, less than (a).

Also, because this accumulating debt is being utilized for productive development programs with rates of return greater than (i), then the additional foreign exchange and increasing international debt represented by the positive basic transfers pose no problems for the debtor countries. In reality, this process of debt accumulation for productive investments represents a significant ingredient in any viable strategy of long-run growth and development. A major concern emerges, however, when (1) the accumulated debt becomes generally high so that its rate of increase, (a), gradually starts to decrease as amortization increases relative to rates of new gross inflows; (2) the sources of international capital change from long-term, "official flows" on fixed concessional loans to short-term private commercial bank loans at market rates that cause (i) to increase; (3) when this happens, the recipient nation starts to experience serious balance of payments problems as product prices deteriorate and the terms of trade decline; (4) an increase in U.S. interest rates on which variable-rate of private bank loans are measured, or an unexpected change in the value of the U.S. dollar in which most LDCs loans are denominated or a world recession or some other external shock like an increase in oil price; (v) a loss in confidence in Third World countries’ ability to repay their loans resulting in (2), (3), and (4) to happen, thus forcing private foreign banks to cut off their flow of new lending. Sometimes, however, essentially a large flight of capital is enhanced by local citizens who for economic or political reasons (for instance, expectations of future currency devaluation) begin to transfer large sums of money out of the country to be invested in various advanced industrialized countries. Any of the above mentioned variables can reduce the value of (a) and cause the value of (i) to rise in the basic transfer equation. Also, all of the above factors can combine to lower (a), and raise (i), in the basic transfer equation with the net result that the whole basic transfer becomes generally negative and capital flows from the less developed to the developed world. Having given this analytical and conceptual background, attention can now be turned onto the macroeconomic stabilization measures prescribed by the International Monetary Fund to address the Third
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**THE IMF AS A GUARANTOR OF THE LDCs CREDITWORTHINESS**

During the 1970s and 1980s, the primary and most active role of the International Monetary Fund has become lending to the less developed countries experiencing shortages of foreign exchange, and as part of this, prescribing economic measures for them. Within the general development, the less developed countries have become one of the Fund's major issues. Between 1973-1979 the increase in LDCs' borrowing occurred primarily under special credit lines designed to finance balance of payments deficits due largely to increased oil prices, temporary short falls in export earnings or to provide "soft credit" from the proceeds of the IMF's sales of gold. However, after 1980, the majority of the LDCs have become major borrowers under the regular system for borrowing under "stand by" or "extended" agreements which are tied to prescriptions and conditions on the borrowing country's actions. (Thasan, 1981). For example, of the total amount of the IMF credit committed to all nations under such agreements, African states accounted for 30 percent in 1979 and 1980 whereas they accounted for only 3 percent over 1970 to 1978 (Anunobi, 1992; Gardner, 1980; Godfrey, 1983; Adepoju, 1994). The IMF attaches strong conditions to the loans it provides a member nation beyond that country's first tranche' of credit or some special kinds of loans. Hence, in upper tranche' borrowing, conditions attach to the stand-by arrangements the IMF makes with a borrower; as the name implies these stand-by agreements, once agreed, permit the IMF to "stand-by" to provide credit up to specified limits over a specified time (one year was formerly the norm ) as long as the borrower satisfied specified conditions. Similar if not the same conditions apply to funds provided under the IMF's Extended Fund Facility. However, the imposition of such conditionalities has not always been part of the IMF's practice. The policy was established in its first decades and has been modified at intervals (Killick, 1982). Systematic information on the conditions imposed is not available, for the general details of each nation's agreement are secret. Meanwhile, information about the conditions some borrowing nations have faced has been publicized by non-IMF sources (Anunobi, 1992). The Fund's own statement on the character of these conditions give a clear indication of the IMF's official rationale for creating them and, thus, of its rationale for its own role in relation to borrowing countries.

As the case may be, the names the IMF gives to the packages of conditionalities it attaches to a loan are "stabilization policy" and "structural adjustment policy" which show the Fund's underlying conception that its role is to assist borrowers to return to some norms. The member country needs funds because of some temporary disequilibrium from a normal position, or some imbalances to which it must adjust. Stability needs to be restored and, once this is achieved, the Fund credit and conditionalities will no longer be needed. However, the conception has been modified in the 1980s for in the intractable crises that the increasing members of the Third World borrowers seemed to face, it was perceived that a return to a stable condition may call for a succession of adjustment policies supported by the
IMF (Zulu & Nsouli, 1984). Meanwhile, this concept does not indicate what is to be stabilized. The brain behind the Fund at its creation was that stability in member states’ balance of payments was the objective to be accomplished under the Bretton Woods system of fixed but adjustable exchange rates.

Furthermore, the International Monetary Fund’s statements of the objects of stabilization programs treat them as a hierarchy with some objectives being only means to an end, but the primary end has varied over time. Stabilization of the balance of payments has, at times, been replaced in public statements by the aim of accomplishing stable growth with targets such as control of credit expansion, stable price level, and balance of payments stability itself presented as means to that end. As Harris (1994) argues:

While the Fund provided resources to support appropriate adjustment programs, a primary concern of the African countries that adopted such programs was the achievement of a sustainable level of economic growth. However, the key to such sustainability was the establishment of domestic and external financial stability. Accordingly, in the general design of these programs, the three basic and interdependent objectives were to promote economic growth, to reduce inflation, and to improve the current account position of the balance of payment over the medium term.

Considerable emphasis was given to economic growth in the programs under consideration; most aimed for an increase in economic growth during the program year (quoted in Klare & Thomas, 1994, pp. 341-342).

The IMF policies, by emphasizing the re-establishment of domestic and external financial stability, can contribute to putting a nation on a sustainable growth area (Klare & Thomas, 1994). Unfortunately, the IMF does not always present growth as the primary target. Therefore, the inconsistency between pronouncements giving preference to growth and those which put the balance of payments first reflects more than a conflict between two interest groups.

Also, the policy measures are attached as conditions to formal stabilization and structural adjustment loans aimed at overcoming short-term imbalances. This includes contractionary policies to achieve short-term stabilization and restore equilibrium in the balance-of-payments through expenditure-switching measures designed to reduce the level of aggregate demand. Sometimes this meant decreasing budgetary deficits, relating prices to market levels, liberalizing trade, adjusting exchange rates (exclusively through devaluation of local currency), and controlling the supply of money and credit system. In most instances, specific targets and time limits were set for major macroeconomic indicators. Furthermore, these economic measures aimed at institutional reform, include public enterprises and parastatals. These macroeconomic stabilization measures gave preference to private sector enterprises over those in the public sector and used market-determined prices to influence production and consumption patterns. These economic stabilization
policies likewise favored export promotion, reinforcing the orientation of Third World economies toward uncertain external markets. In reality, these programs assumed that the economic crises afflicting the economies of the LDCs flowed from domestic policy shortcomings. If external variables were taken into consideration at all, they were seen as mainly conjunctural.

Conversely, policies of structural adjustment are designed to address balance of payments imbalances that are generally internally generated by high inflation rates, huge budget deficits, or structural impediments to the efficient allocation of resources, such as subsidies or tariffs. The Fund structural adjustment policies highlight "productive capacity as critical to economic performance" and emphasize "policies to increase the economy's productivity capability and to raise the flexibility of factor and products markets" (Klare & Thomas, 1994, pp. 341-343; see also Wilber & Jameson, 1992; Mansbach, 1994; Ray, 1993). A basic assumption in a structural adjustment policy is that current consumption must be suppressed so that capital can be diverted into more productive domestic investments. A similar assumption of the Fund macroeconomic measure is that exposure to international competition in investment and trade can accelerate the efficiency of domestic production. In reality, these policy measures involve reduced food and transportation subsidies, curbs on government expenditure, public sector layoffs, and higher interest and tax rates. These results typically affect the poorest members of the economy more than any one else. However, when we are dealing with a specifically inefficient economic system, structural adjustment becomes perhaps the most acceptable prescription. For one thing, there were many instances of gross inefficiency, not to mention outright corruption in many of these nations that were soliciting International Monetary Fund assistance. In this circumstance, the IMF programs were probably regarded as the correct approach by the private and public financial institutions that were being asked to reschedule loans. Meanwhile, the critical difference between the traditional Fund role and its new role as guarantor of credit worthiness is that the suppression of demand, previously designed to free capital for domestic investment, simply freed capital to leave the economy.

Furthermore, IMF argues that it was primarily inefficient economic management in the LDCs that led to the debt crisis in the first place. As a result of this, the LDCs had gorged themselves on easy money in the 1970s, with the debt crisis being mainly equivalent of a fiscal and psychological hand over. With that in mind, the Fund argued that the failures of stabilization policies or structural adjustment measures were due largely to political constraints or weak administrative systems, as opposed to external variables that were beyond the control of the LDCs. It is very difficult to determine the validity of this view. For one reason, some loans have been misused. That notwithstanding, the LDCs cannot be blamed on fiscal irresponsibility in such issues as the increase in interest rates or the World recession in 1981-1982. In the overall analysis, blame rests on a system of finance that permitted the LDCs and financial institutions to engage in transactions only reasonable in the context of wildly optimistic scenarios of economic growth. Additionally, much blame rests on public policy measures in the United States that were undertaken with insufficient
regard for their global financial implications.

To be sure, the failure of conventional strategies to alleviate the debt crisis suggests that perhaps the conventional orthodox interpretation of the debt crisis is inadequate if not misleading. The most compelling evidence is the fact that periodic debt crisis seem to be endemic to the contemporary global system. There have been cycles of debt and default in the past, and some of the same debtors have experienced similar crises in all circumstances. Hence, the debt crisis of the 1980s cannot be contemplated mainly to the contingent conditions of oil price increase in 1973-1974 and the United States fiscal and monetary policy as the orthodox conventional theorists portray these factors. Whatever explanation they have must be supplemented by variables and/or factors that are more structural in nature. Indeed, there are two major concerns relatively unexplored by the traditional conventional interpretation of the debt crisis that need much attention, and they both relate to the vulnerability of the LDCs to changes in the international economy over which they have little or no control: their dependence on primary products as sources of their export revenues and their sensitivity to monetary changes in the developed market economies. The last consideration is perhaps more serious.

It is not a mere coincidence that the United States experienced its own very serious debt crisis in the same year that concern arose among the heavily indebted countries. The large government debt of the U.S. and its related balance of trade deficits precipitated a deliberate measure of economic contraction that had international implications. For example, interest rates in the U.S. had accomplished very high levels in 1979, but the inflation rates at the time were also very high. Also, after the deep economic recession of 1981-1982, the inflation rate decreased dramatically, but the interest rates remained excessively high. To put it in the words of Klare and Thomas (1994, p. 343):

Interest rates remained high because they were necessary to attract foreign investments to finance the extraordinary U.S. budget deficits created by the reductions pushed by the Reagan administration and passed by the Congress. In turn, the high interest rates inflated the value of dollar, reducing U.S. demand for developing-country exports and further diminishing the ability of the indebted countries to repay their loans.

However, the United States did not experience a debt "crisis" simply because it was unable to reassure its creditors that its promises to pay were obvious. But the high real interest rates forced upon the less developed states as their loans were turned over created a condition where no similar guarantees could be provided. Since it is a reality that the LDCs could no longer meet the increased payments, the private financial establishments tried to pull back, bringing about the very crisis they planned to solve. Only very persistent efforts by official governmental agencies managed to stabilize the condition enough to avoid a repeated default. In fact, it was the activities and actions of the U.S. that created the immediate crisis, and not some circumstances or pattern of circumstances in the Third World.
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Truly, the debt crisis exacerbated an already bad condition with respect to the capability of the LDCs to pay back their loans. The majority of the LDCs were generally poor prior to the debt crisis, which was one of the main reasons why they looked for external sources of funding. There was no strong indication before 1973, that this situation of relative poverty was improving in any but a few of the LDCs, such as the newly industrializing states of Singapore, South Korea, and Taiwan. In reality, most Third World nations were falling further behind the advanced capitalist industrialized states at an alarming rate. The less developed countries will always remain relatively poorer than the developed capitalist countries as long as they rely strongly on primary or raw materials, such as cocoa, rubber, groundnut, and copper for export earnings. Trade may be a stimulus to growth or development, but trade is not an effective mechanism to overcome relative poverty if and when the values for primary products fail to keep pace with the value of manufactured commodities. The relationship between the values of manufactured exports and the values of primary goods exports (the terms of trade) has been carefully examined by many economists, and some of them, such as Raul Prebisch, have believed that the global division of labor is systematically biased against the interests of states that depend strongly on the export of primary goods. This debate, which has been extended into what has been designated a theory of dependency, is a difficult one to resolve with clear empirical evidence.

Contemporary evidence, however, suggests that producers of raw materials have really suffered relative economic losses in the 20th century. With regard to this, Grilli and Yang (1988) have analyzed the terms of trade between primary products exports and manufactured products exports since 1900 and discovered that the prices of all primary products (including fuels or minerals) relative to those traded manufactures decreased by more than 36 percent over 1900-1986 period, at an average annual rate of 0.5 percent (United Nations, 1988). Hence, the Third World nations are at a structural disadvantage compared to the advanced capitalist countries. The newly industrialized states of East Asia are exceptions to this rule; because they have been able to expand manufactured exports beyond reasonable expectation. They have as well improved their relative economic and financial condition more than expected in recent time. Other LDCs have been less successful, and the current resurgence of protectionist measures against manufactured goods from the LDCs will make this type of transition even worse. Therefore, the solution to the debt crisis, and the underlying poverty that engendered it must address these concerns.

THE COSTS AND IMPLICATIONS OF THE DEBT CRISIS

Among debt-affected Third World nations, the 1980s debt created a devastating crisis. The hostility and trauma caused by the debt crisis that first emerged in August 1982 are difficult to mention. The evolution of debt has had many implications for the less developed countries, but this particular section will exclusively focus on three specific effects: the fall
in the quality of life within debtor nations, the political crisis associated with that fall, and the consequences of the decline on the advanced capitalist nations (Anderson, 1990). The first, and most devastating, consequence of the debt crisis was, and continues to be the important movement of capital from the LDCs to finance the debt. According to the World Bank, before 1982, the highly indebted countries received about 2 percent of gross national product (GNP) a year in resources from overseas; since then they have transferred about 3 percent of GNP a year in the opposite direction (Anunobi, 1992). Also, in 1988 the LDCs transferred $50 billion to the advanced industrial societies, and the cumulative total of these transfers since 1984 is approximately $120 billion (Hastedt & Knickrehm, 1991, pp. 361-367).

The issue became so pervasive that even institutions whose responsibilities included helping the indebted nations were draining capital from the LDCs. For example, in 1987 the International Monetary Fund received nearly 8.6 billion more in loan repayments and interest charges that it lent out (Ibid.).

However, this capital movement has definitely prevented prospect for economic growth or development in the less developed countries and seriously skewed the patterns of economic development in the first place. The real consequences for growth are summarized in Table 2. The decrease in average growth, from 6.3 percent a year to 1.7 percent a year, is even worse than it seems. With the rate of population increases in these nations, a 1.7 percent rise in GDP translates into a net fall in per capita GDP. To put it differently, the populations of these nations were essentially worse off economically during the period of the debt crisis; and this fall further jeopardized opportunities for future economic development given its consequences on local demand and productive investment. According to Prebisch, the terms of trade statistics, which reflect the relative movement of export revenues to import prices, are similarly grim: The LDCs are receiving less in return for the exported commodities when generally compared to their costs for imported products. In reality, these countries must export even more of their primary products in order to maintain current levels of imported manufactured goods.
As it stands now, the debt crisis has a self-reinforcing dynamic. Economically and politically, the implications of the debt crisis have been profound. Twenty-eight Latin American and Caribbean countries that have undergone economic stabilization programs or structural measures as a consequence of debt were able to finance $145 billion in debt payments between 1982 and 1988 but still face economic stagnation, increasing unemployment, and a 7 percent fall in per capita income (World Bank, 1989, p. 191; IMF, 1991). Real wages decreased in Latin American countries including Mexico by 50 percent during this period. The rise in debt service and the deterioration in lending to LDCs have resulted in net resource transfers from the LDCs to the developed countries. This has prevented domestic capital formation in most LDCs, and it also resulted in a drain on valuable foreign exchange earnings. A net resource transfer is the amount of external loans made minus the amount of interest and amortization payments being made on external debt. This amounts to a transfer of wealth in real terms. Also, between 1977 and 1982, the Third World nations received a positive resource transfer of $147 billion. Since then there have
been negative transfers of $85 billion (World Bank, 1989, p. 191).

Furthermore, payments on current loans and limits on future lending henceforth affect development in the less developed countries. As interest rates increased and exports stagnated if not declined, the cost of servicing debt increased from 27.1 percent of export revenues to 38.8 percent from 1980 to 1982 (IMF, 1990). Therefore, a large amount of export revenues must go to interest payments rather than to financing development at the same time that less credit is available to finance these activities. To make matters even worse, the Third World's share of global trade has declined during the period of the debt crisis as mentioned elsewhere in this analysis. Meanwhile, to increase their foreign exchange reserves, debtor countries must reduce imports. This in reality, affects the industries in advanced capitalist economies, which depend heavily on these markets. For instance, the United States balance of trade with Latin America changed from a surplus of $2 billion in 1980 to a deficit of $13 billion by 1986 (UNCTAD, 1988, pp. 60-66). With this situation, money that could have been used to build factories and provide employment is now sent abroad. For this reason, the problem of unemployment and underemployment will be compounded in the LDCs.

Also, economic crises have created essential political crises for the fragile democracies that exist in some African, Asian, and Latin American countries. Reaction to high rates of inflation, economic stagnation, unemployment, poor standard of living, and the adoption of austerity measures has ranged from rioting to the defeat of incumbent parties, sometimes replacing moderate with more extremist parties (Klare & Thomas, 1994). Specifically, there have been over twenty violent protests in recent years against the austerity measures imposed by the International Monetary Fund, with over 3,000 people dead in those protests (Feinberg, 1987, pp. 6-8). The most recent occurred in Venezuela, where more than 300 people were killed. However, the protests in Venezuela, the election of the Peronist party in Argentina, the military takeover of the democratically elected president in Nigeria, and the election of a right-wing government in El Salvador have all raised serious concerns about the future of democracy in these areas. Political instability may make it more difficult for democratic governments to survive, particularly in Africa and Latin America, and may result in the creation of authoritarian governments. In a number of countries, nationalist movements on both the left and the right have seen increases in their strength as a result of the debt problem. In response to instability, direct foreign investment has decreased, hence worsening the economic conditions. Moreover, popular pressures may lead to regimes radically hostile to market economies, hence establishing the condition of dramatic confrontations between debtor nations and the external institutions that establish the terms for debt rescheduling.

The last cost of the debt crisis has been one experienced by the advanced capitalist states, especially by the United States. Increasing poverty in the less developed countries results in a decrease of economic growth or development in the advanced industrialized market economies. The less developed countries have been forced to undergo a series of austerity measures, which include a dramatic fall in imports in order to accelerate the foreign
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exchange revenues needed to pay back their debts. The decrease in the average annual growth rate for imports of the seventeen most heavily indebted nations is very serious: the average annual growth rate for these nations in 1965-1980 was 6.4 percent. In 1980-1987, that figure had declined to minus 6 percent, for a total shift of minus 12.3 percent (Hastedt & Knrickrehm, 1991). Another major estimate is that the seventeen most heavily indebted countries reduced their imports from the advanced industrialized countries by $73 billion from 1981-1986 (Kibourn, 1989). In this particular situation, the United States has been seriously affected by this major decline in imports because most of its exports to the LDCs have, historically, gone to the Latin American countries which are most seriously affected by the debt crisis. In line of this argument, the United Nations Conference on Trade and Development (UNCTAD) argues that:

Because of this import compression by the highly-indebted developing countries, United States exports to them actually declined by about $10 billion between 1980 and 1986. As a result, the United States recorded a negative swing in its trade balance of about $12 billion between 1980 and 1986; the corresponding negative swings for the other developed market economy countries were much smaller: about $3 billion for Japan, $2.4 billion for the Federal Republic of Germany and $1.6 billion for the other EEC countries (quoted in Klare & Thomas, 1994, p. 345).

These declines mainly aggravated if not compounded an already bad trade condition for the United States. The absolute declines were really large; and if one extrapolates losses from an expected rise for export growth based on current history, the declines are essential. For one thing, Richard Feinberg translated the export loss to the United States in terms of lost jobs when he testified before the U.S. Senate: “...roughly 930,000 jobs would have been created if the growth trend (of United States export to the LDCs) of the 1970s had continued after 1980. For this reason, he concluded that nearly 1.6 million United States jobs have been lost due largely to recession in the less developed countries of the South (Fuerbringre, 1992, p. A1). Feinberg finally argues that it is also in the interests of the advanced industrialized capitalist nations to seek an equitable remedy or alternative solution to the debt crisis. According to Feinberg, nobody’s long term interests are served by the increasing impoverishment of millions of people. The stability and financial health of the developed countries depend significantly on debt resolution terms that permit, improve, and foster economic growth and development of the less developed countries.

SOLUTIONS TO THE DEBT CRISIS

The International Monetary Fund (IMF) has taken on a strong role in the management of the debt crisis. The heavily indebted nations have had to approach the International Monetary
Fund for financial assistance. In this case, the Fund first assesses the economic condition of the borrowing nations, works out standby arrangement loan, and monitors the country’s economic measures to ensure that it adheres to the conditions of the loan. Private institutions and international financial establishments mainly perceive IMF approval as an indication that the debtor nation is attempting to address its economic crisis and is hence worthy of additional financial assistance. Therefore, in order to renegotiate loans with a private financial establishment, the debtor country must agree to the Fund’s macroeconomic stabilization measures such as trade liberalization, currency devaluation, and other austerity measures. However, the macroeconomic stabilization policy, which generally calls for devaluation of currency and austerity programs to regulate inflation, is politically sensitive and places an essential burden on the poorer population in the debtor countries. Currently, the IMF has indicated greater flexibility in the economic programs that it has negotiated with the LDCs. These conditionalities were discussed earlier in this analysis.

THE BAKER PLAN AS AN ALTERNATIVE SOLUTION TO THE DEBT CRISIS

Currently, a number of proposals have been put forward for managing the debt problem. The Baker plan, proposed in 1985, was designed to encourage renewed lending to support economic growth in the debtor nations (Hastedt & Knickrehm, 1991). The Baker Plan advocated a three-way agreement among debtors, creditor states, and private creditors. In the first instance, the debtor states would open their economies to trade and multinational investment, and implement market-oriented measures. In addition, the creditor countries would stimulate their own economies and make them accessible to debtor exports and encourage the role of the World Bank in lending to the debtor states. The private financial establishments would loan an additional $20 billion to the debtor countries to accelerate policy changes and to foster economic growth and development. These proposals further included (i) debt-equity swaps, in which businesses or properties in the debtor nation are purchased at a discount by the financial establishments as partial repayment; (ii) debt-for-debt swaps, where bonds are offered at discounted repayments; (iii) exit bonds, which are long term bonds rendered importantly as take-it-or-leave-it offers to creditors who have no further interest in investing and wish to cut their losses; or (iv) cash buy-backs, where the debtor nation simply purchases back its loan at a deep discount (Klare & Thomas, 1994, pp. 350-353).

Majority of these proposals, particularly the debt-for-nature swaps, where the debtor nation promises to protect the environment in return for purchases of the debt by outside groups, are creative and could have significant implication. Accordingly, the then Secretary of the Treasury, James Baker, argues that by providing a number of different options, repayment can be tailored to the particular circumstances of a nation, thus easing the burden. Critical to the success of the menu approach is the assumption that nations will eventually grow out of their debt (Ibid.). This plan was perceived as essential because it marked a true recognition on the part of the United States that the debt crisis was long-term
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and because it did not depend entirely on LDCs’ efforts to foster their own economic and political condition (Ibid.). The policy failed because the financial institutions were reluctant to make new loans. Secondly, this approach also assumes the repayment of debts on terms that are importantly dictated by the creditor nations. Therefore, no lender is obligated to accept any of these propositions. Again, the opportunities for swaps and buy backs are limited. There are, after all, a relatively small number of investment opportunities in poorer nations, and the debt problem itself has also limited those possibilities. Some critics further argued that, even if it had succeeded, it would only create more debt than many would have anticipated.

THE BRADY PLAN: A DEBT REDUCTION INITIATIVE

The Brady proposals have to do with debt reduction, and these only became a real possibility in spring of 1989 with the announcement of a new policy, named the Brady Plan, after U.S. Secretary of the Treasury Nicholas Brady. The Brady Plan specifically called for a total reduction of about 20 percent of international debt, with the International Monetary Fund and the World Bank providing guarantees for the repayment of the other remaining 80 percent of the debt (Klare & Thomas, pp. 350-353). In this particular circumstance, banks were asked to reduce voluntarily principal or interest charges on loans to developing countries. Debt would be reduced through such mechanisms as buy backs, conversions of debt into bonds at lower principal or interest, or debt equity swaps. Since then, Mexico, Brazil, Morocco, the Philippines, Costa Rica, Argentina, and Venezuela had reached agreements concerning their debts under the negotiations of the Brady initiative (Ibid.).

This proposal recognizes that problems are to be approached on a case-by-case basis. To qualify for relief under the Brady Plan, a country must agree to implement macroeconomic stabilization measures to encourage domestic savings, trade liberalization, direct foreign investment, and the like. This proposal has been praised for addressing the need to reduce the debt burden of less developed countries but the plan clearly did not go far enough in solving the debt problem. The Brady Plan has been criticized for offering too little relief. Loans would be reduced by about 70 billion over three years. Furthermore, critics have believed that, if economic conditions worsen and nations are unable to make their payments, the financial establishments will turn to the multilateral lending institutions, that is, the IMF and the World Bank, which then must make good on their promise to guarantee the payments. The proposal is further criticized because it applies only to those less developed countries that are willing to implement politically unpopular and/or sensitive austerity programs. Also, in market terms, less developed countries’ debt is already selling on the secondary market at approximately thirty-five cents to the dollar (Klare & Thomas, 1994).

To put it differently, debt reduction had already occurred in the market place, and only a proposal that incorporates reduction must take this into consideration. There are some critical concerns with debt reduction. Debt reduction could minimize the incentive for
debtor countries to make economic changes that could lead to greater efficiency. Again, it could establish a precedent that would have the effect of reducing, or even eliminating, the possibility or chance for any future bank lending for economic development programs. Also, debt reduction could have the effect of saddling multilateral lending institutions, like the World Bank, with serious financial burden, thus vitiating their future efficiency and/or effectiveness.

Meanwhile, these concerns are in reality genuine. Counterpoised to these possibilities, however, is the stark reality of hundreds of millions of people living in desperate situations with no hope of relief in the near future (Klare & Thomas, 1994). According to Clare and Thomas, any proposal for reducing the debt burden, must therefore, try to incorporate a number of legitimate, but competing, concerns of varying significance. These two scholars further argue that, the repayment of the debt itself has ceased to be the main issue. Private financial establishments seriously have an interest in the repayment of the debt and, to the extent possible, these interests must be accommodated. They also argue that the security of the global banking system is no longer at risk and as such legitimate public concern can no longer dictate possible actions. The primary concerns according to these scholars are: the re-establishment of economic growth in the highly indebted nations, the effective and meaningful distribution of that growth into all sectors of their economies, and their reintegration into the global economic system. It is only after sustained economic growth returns to the highly indebted nations that the global community can begin to determine manageable rates and methods of debt repayment (Klare & Thomas, 1994).

At this point, however, the International Monetary Fund must basically reexamine its policy measures with regard to austerity. Programs such as structural adjustment or economic stabilization policies may be appropriate for the original purpose of the IMF – to help countries suffering temporary difficulties in maintaining currency value because of transient balance of payments imbalances. These macroeconomic stabilization policies or structural adjustment measures are profoundly counterproductive in current circumstances and, in fact, are guided by a wildly inappropriate perspective. For example, the inflows of capital to the IMF from the highly indebted states were more than a gross embarrassment (Ibid.). These were conclusive evidence of the IMF's misunderstanding of the causes of the debt crisis in the first instance. The IMF must shift its theoretical orientation and analytical perspective to more creative or appropriate ways of stabilizing or depressing interest rates rather than increasing them, or ways to prevent capital flight from the LDCs, or support any specific issues that would foster growth and development in the LDCs.

CONCLUSION

In conclusion, therefore, there are genuine issues of responsibility that according to Klare and Thomas (1994), deserve to be made explicit. The debt crisis is only a symptom of a global economic system that allows growing and abysmal poverty as a normal condition. This need not, and should not, be the case. The advanced industrialized states have a
responsibility to establish conditions whereby the less developed countries can interact more productively or effectively in global economic operations. The most effective, if not essential, contribution to this end might be in the area of reducing trade barriers on the commodities of the less developed countries. The less developed countries will make sure that money received from international financial institutions or private banks are purely and efficiently utilized for economic growth and development.

Moreover, the obscene personal profits accumulated by such Third World leaders as Mobutu of Congo (Brazzaville) and Marcos of the Philippines should not be encouraged and/or fostered by the strategic interests of the industrialized capitalist countries. The international financial institutions and banks should realize that their single-minded pursuit of profits almost led them to the brink of bankruptcy. The most important lesson to be learned from this experience is that for economic growth to be sustained, close attention must be paid to the mutual interests of all parties involved.

Most importantly, the debt crisis underlines the tremendous interdependence and political fragility of the global economic and financial system. It has further demonstrated that not only were Third World economies terribly vulnerable to 1 or 2 percentage point increases in the United States interest rates but, perhaps more importantly, developed countries would in reality be harmed by the economic failures and/or public policies of key developing countries. While many developing nations can be held at least partially responsible for the massive accumulation of debt, the adverse economic conditions that face them are often outside of their control. In reality, this adverse economic climate was, in part, compounded by the industrialized countries' economic stabilization measures which led to soaring interest rates, worldwide economic recession, and the resulting decrease in demand for developing nations' exports.

In sum, the burden of the international debt crisis must be shared by all. Several developing countries may have to undergo a period of difficult adjustment. By the same token, advanced industrialized countries will have to relax restrictive monetary policies and encourage imports. In addition, some forms of debt relief programs (for instance, making interest payments in local currencies or putting a "cap" on real interest rates) will be necessary. International financial establishments, particularly the IMF and World Bank, will be required to provide sufficient financial liquidity until the economic condition changes in developing nations allow them to make the necessary adjustments without sacrificing growth and equity.

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